

Portugal, the comfort zone to deal with uncertainty?

EY Attractiveness Survey
Portugal
July 2022



The better the question. The better the answer.
The better the world works.

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The findings in this report are based on a two-step methodology that analyze the reality and perception of Foreign Direct Investment (FDI) in Europe. The reality of investment in Europe is based on the EY European Investment Monitor (EIM), an EY proprietary database produced in collaboration with OCO. This database tracks FDI projects that have resulted in the creation of new facilities and jobs. The perception of foreign investment in Europe is assessed by an online survey conducted by Euromoney in February, March and April 2022, based on a representative panel of 200 international decision-makers. In addition, this report contains views and insights from EY professionals and other stakeholders.

We would like to extend our gratitude to ...

António Costa e Silva, Minister of the Economy and Maritime Affairs

Bernardo Ivo Cruz, Secretary of State for International Trade and Foreign Investment

Elvira Fortunato, Minister of Science, Technology and Higher Education

Etienne Huret, CEO of Natixis in Portugal

Joana Mendonça, President of the National Innovation Agency (ANI)

José Botelho, CEO of Vanguard Properties

Luís Castro Henriques, Chairman and CEO of AICEP Portuguese Trade and Investment Agency

Nuno Sebastião, CEO of Feedzai

Furthermore, we would like to thank the hundreds of business leaders and EY professionals who have taken time to share their thoughts and insights with us about the possibilities that await us in Portugal in the coming years.

Foreword



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Miguel Cardoso Pinto

EY-Parthenon Leader
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2022 was supposed to be a time of recovery after an unprecedented crisis which affected the world's economy. In a context of high uncertainty, world economies expected to reshape themselves according to the new trends brought by the COVID-19 pandemic.

The geopolitical context represented another challenge to an already defying period of recovery. Although we are still managing the early blows and despite the lower direct dependency of Portugal from the Russian economy comparatively to other European countries, indirect effects must be considered when planning the future.

Growth projections are more favorable for Portugal than for the average of the Euro area for the next two years. However, business strategy and public policy will have to face a complex context of rising inflation and interest rates.

Despite the challenges of recent times, Portugal welcomed 200 Foreign Direct Investment (FDI) projects in 2021, propelling the creation of more than 28,000 jobs and ranking on the eighth position among the most attractive European economies for investment. Portugal now accounts for 3.4% of the FDI projects in Europe.

Manufacturing projects doubled their number from 2020, remaining the leading type of investment in Portugal. R&D continues to exhibit a growth trajectory as before, contributing with 42 FDI projects in 2021.

Digital economy remains a sector where investors place high expectations, with 52% believing it is the most important driver of Portugal's economy. The cleantech and renewables and the real estate sectors are also seen as potential growth drivers for Portugal.

Social stability and quality of life are factors that differentiate Portugal's attractiveness. The talent ecosystem and the overall perception of Portugal as a model for sustainability reinforce the country's resilience in the eyes of investors.

Building the right set of talent and continuously progressing to be a leading country in Europe in innovation and sustainability can be key advantages in an increasingly competitive landscape.

Focusing on the development of public policies that match the needs of emerging areas and fostering innovation are the path to increase the country's attractiveness to investment.

One of Portugal's main challenges is its aging population. This risk can be perceived by two perspectives: the reduction of the working age population and the aggravation of the talent shortage.

The simplification of the country's tax system would pave a clear road for investment. A targeted and clear communication would ensure the message about Portugal's attractiveness is clear for investors.

Portugal has shown resilience regarding the economic challenges the world and Europe in the recent years. This resilience reveals a unique opportunity to develop conditions that will further increase attractiveness and that can capitalize on the actual perception of investors.

Proactivity in a sea of uncertainties is the way forward to prevent being caught off guard by unexpected events. The search for comfort zones for investment has never been more relevant than nowadays.

The EY Attractiveness Survey 2022 intends to fuel debate and discussion regarding Portugal's attractiveness and to spark change. It will help design a successful path for FDI in Portugal, a key driver of EY's mission of building a better working world.

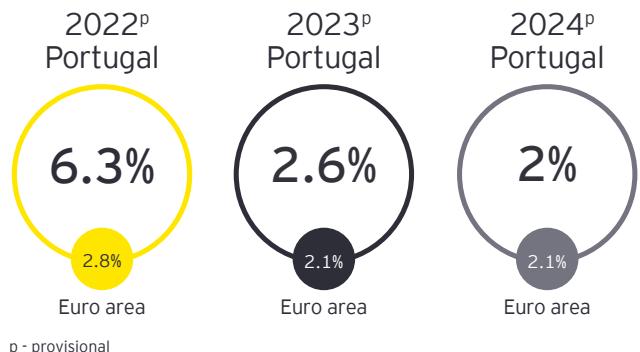
We would like to thank all of those who shared their assessments and expertise in this survey and helped the development of a more insightful perspective on Portugal's attractiveness to FDI.

Executive summary

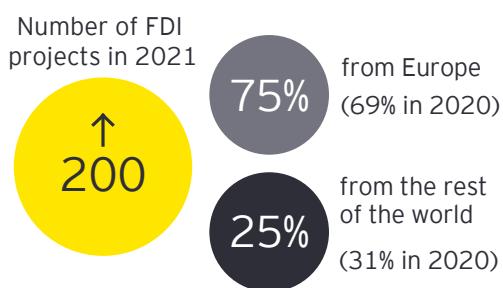
1

The big picture:
Macroeconomic overview and
Portugal's attractiveness to FDI

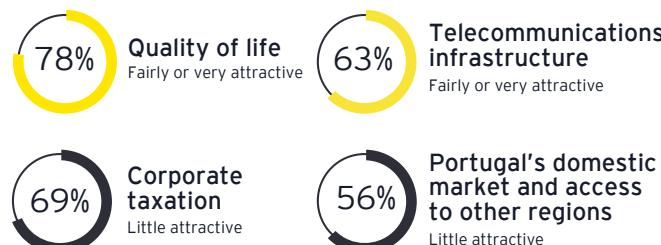
Portugal is expected to grow at a faster pace than the Euro Area in 2022, with a trend forecasted to be sustained until 2024, when Gross Domestic Product (GDP) annual growth will align to the Euro area's projections



2021 was a record year for FDI projects in Portugal, with a growth of almost 30% since 2020



Portugal's traditional factors of attractiveness are being sustained, but taxation and market access worries investors

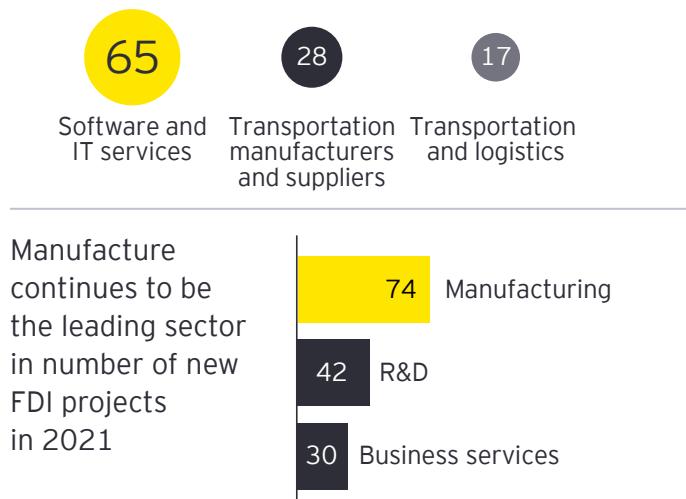


2

The small picture:
A closer look into sectors and FDI trends

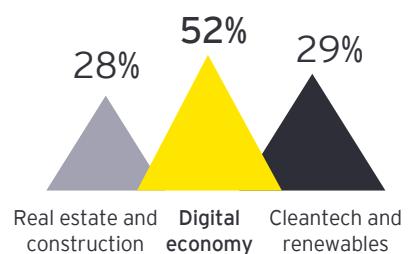
From FDI projects announced...

Software and IT services sector dominated the FDI investments in 2021

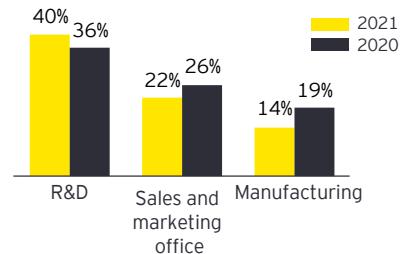


From attractiveness survey ...

Where is the growth potential for Portugal's economy?



Investors see R&D, sales and marketing and manufacturing as the best types of investments to establish or expand in Portugal





3

Eyes ahead

Evolving and progressing Portugal as an FDI destination

Some topics to be aware ...

Where to improve: factors Portugal needs to develop to compete in a global world

- ▶ Current legislation to become more suitable for 21st century technologic disruptions
- ▶ Focus on a green and sustainable economic model
- ▶ Support the upgrade of Portuguese SMEs that have a strong contribution to value added, exports and innovation when compared to other OECD countries

Specific challenges to be more agile: reform the tax system and reshape communication

- ▶ Reform on the Portuguese tax system to promote FDI attractiveness
- ▶ Promote an efficient and innovative communication to get even closer to strategic investors, in a context of increasing competition for investment

The path forward: the risks for Portugal's attractiveness landscape

- ▶ Emerging markets as an alternative investment destination are perceived as a major risk to Portugal's FDI attractiveness
- ▶ Aging population: a higher concern than on other European countries
- ▶ Geopolitical and economic uncertainty in Europe brings challenges to Portugal's attractiveness

A tale of two crises: the impact of COVID-19 and the geopolitical context will continue to test Portugal's resilience

- ▶ Economies are put to the test: high inflation, uncertainty and lower growth
- ▶ Investors remain positive despite the geopolitical situation
- ▶ Portugal is displaying strong growth and relatively low direct impacts compared with its European neighbors
- ▶ Europe's need for energy autonomy favors Portugal in the region's geopolitics

Priorities for FDI attractiveness in the long run ...

01

Build the right pool of talent, improve the conditions to retain and attract further talent.

02

Foster growth on key sectors and maintain the recovery trajectory through uncharted waters.

03

Take advantage of Portugal's perception as a sustainability leader.

04

Communicate more in an efficient way and with the right message.

05

Develop a tax system that will attract, sustain and promote investment.

1

The big picture: Macroeconomic overview and Portugal's attractiveness to FDI

6.3%

Expected GDP
growth in 2022

13%

Expected exports
growth in 2022

5.2%

Expected private
consumption growth
in 2022

62%

Surveyed investors
with investment
plans in Portugal

200

FDI projects in
Portugal in 2021

8th

Position in the
destination countries
of FDI projects
in Europe in 2021

Portugal is growing with an eye at geopolitical and inflation challenges

Portuguese recovery at a faster pace than the Euro area average

The Portuguese economy entered the phase of economic activity recovery after the contraction caused by the COVID-19 pandemic in 2021. According to Banco de Portugal (BoP), in this year, Portugal's Gross Domestic Product (GDP) grew 4.9%, a value significantly higher than the expectations at the beginning of the year. In March 2021, BoP's Economic Bulletin - first projections of the year - projected the year's economic growth at 3.9%.

The Portuguese economy continues to show signs of economic recovery but in a context of uncertainty resulting from the impacts of the conflict between Russia and Ukraine. BoP's projections indicate Portugal will continue to grow above the Euro area average until 2024, when growth rates are expected to align.

Rising inflation but lower than EU average

According to BoP forecasts, as in the previous years, inflation is expected to be more moderate in Portugal, when compared to Euro area, resulting in a differential of 0.6 p.p. in the average projections for the period 2022-2024. The increase in inflation is one of the main risks to the recovery of the Portuguese economy. The sharpening of the conflict between Russia and Ukraine can contribute to the increase in the prices of energy, raw materials and primary goods. Moreover, trade and financial flows can become more constrained because of sanctions.

Recovery and sustainable growth based on structural reforms of the Portuguese economy

The recovery process is based on plans to transform and reshape the Portuguese economy to a more sustainable and digital paradigm, aligned with new

European and National strategic priorities for the next decade. As a result, the expected new cycle of recovery and growth will be focused on the sustainable development of new comparative advantages of high added value.

This new paradigm will be based on greater resilience and macroeconomic stability. This includes investment promotion incentives and a commitment to reducing public debt assumed by the Portuguese Government. For BoP, Gross fixed capital formation in Portugal is expected to grow 5.0% in 2022 (2.2 p.p. above euro area average). The government has set its goal to reduce the public debt to 120.7% of GDP in 2022.

The Portuguese economy also benefits from its lower exposure to war-affected markets in terms of international trade, which ensures some additional resilience when compared to other European markets. These factors are reflected in the growth projections of private consumption and in the sharp growth of exports.

Table 1: Main economic indicators

		2018	2019	2020	2021	2022 ^p	2023 ^p	2024 ^p
GDP (annual growth rate)	PT	2.8	2.7	-8.4	4.9	6.3	2.6	2.0
	Euro area	1.8	1.6	-6.4	5.4	2.8	2.1	2.1
GDP (billion euros)	PT	205.2	214.4	200.1	211.5	224.8	230.7	235.3
GDP per capita (EU27=100)	PT	78	79	76	74	-	-	-
Private consumption (annual growth rate)	PT	4.2	4.1	-6.4	4.5	5.2	1.2	1.5
	Euro area	3.0	2.5	-7.4	3.5	3.1	2.0	1.5
Public consumption (annual growth rate)	PT	3.4	4.6	5.1	4.1	2.2	-0.9	-0.2
	Euro area	3.0	3.7	4.7	3.9	0.6	-0.5	1.1
Gross fixed capital formation (annual growth rate)	PT	9.3	8.0	-1.6	6.4	5.0	7.6	5.0
	Euro area	5.1	9.2	-5.9	4.1	2.8	3.1	3.4
Exports (annual growth rate)	PT	6.5	4.6	-20.6	13.1	13.4	5.8	3.6
	Euro area	5.2	3.5	-10.2	11.3	3.9	4.2	3.7
Public debt (against GDP %)	PT	121.5	116.6	135.2	127.4	-	-	-
Inflation (annual rate)	PT	1.2	0.3	-0.1	0.9	5.9	2.7	2.0
	Euro area	1.8	1.2	0.3	2.6	6.8	3.5	2.1
Unemployment rate (%)	PT	7.2	6.7	7.0	6.6	5.6	5.4	5.4
	Euro area	8.2	7.6	8.0	7.7	6.8	6.8	6.7

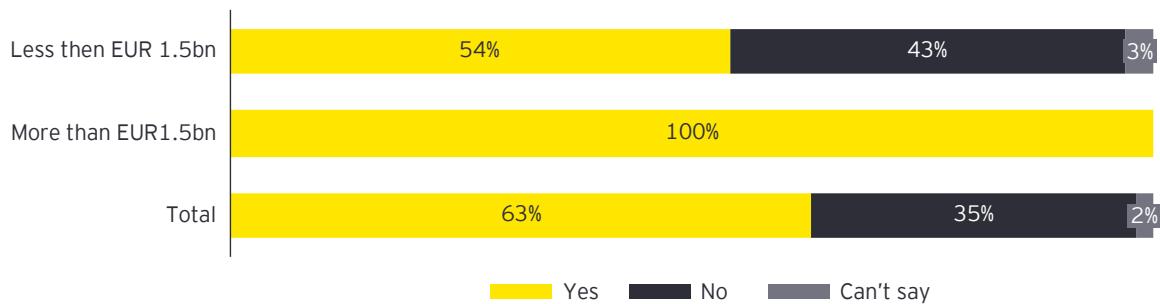
Sources: Bank of Portugal, Economic Bulletin, June 2022; European Central Bank, ECB staff macroeconomic projections for the euro area, June 2022; European Commission - Eurostat
p - provisional

European response to COVID-19 as an incentive to investment

Businesses have been convinced by the measures taken by the European Union to support the economy, after a crisis of a magnitude not seen since the Second World War.

Nearly two-thirds of them (100% for businesses with a turnover of more than €1.5 billion) say that the Recovery and Resilience Facility (RRF) was a decisive factor in their decision to maintain or expand their operations in Europe.

Figure 1: Do you consider European Resilience and Recovery Facility a decisive factor in your decision to maintain or expand your activities in Europe



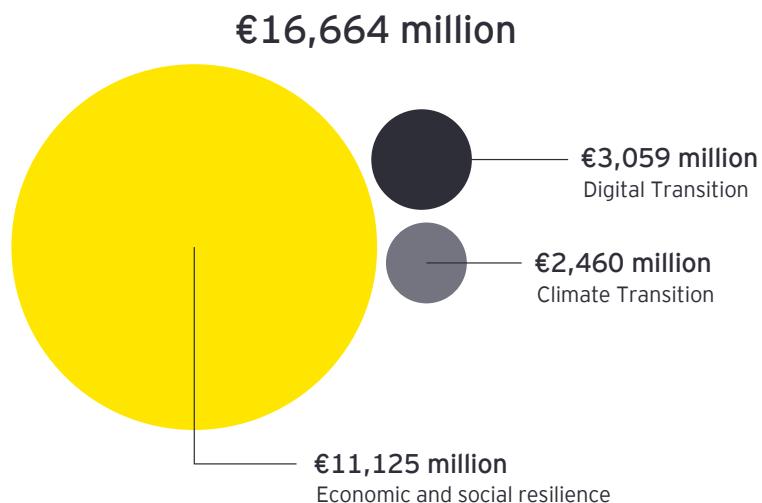
Source: EY Attractiveness Survey Europe 2022 (total respondents: 501)

The Recovery and Resilience Plan (RRP) of Portugal was the first to be approved by the European Commission. A total of €16.7 billion will be allocated to the Portuguese economy until 2026. The Portuguese RRP is divided into three dimensions whose financial allocation is described in figure 2.

Despite the initial allocation, some investments have a transversal application. As such, in line with the European Union's objectives, around 38% of the planned investments are related to the climate transition and 22% are related to the digital transition. Portugal's RRP will support companies that are committed to these themes.

Among other dimensions, support is provided to boost business innovation, reconverting business models and capitalizing companies.

Figure 2: Financial allocation of Portugal's RRP



Source: Portugal 2030

“

The [Portuguese] RRP focuses on adding value and developing sectors and value chains. This will be a unique opportunity for businesses to create conditions that enable the market as a whole to grow (...) resulting in innovation and rapid and visible impacts on the economy.

**Miguel Amado**

Partner,
GPS and Health, Science and
Wellness, Consulting Services,
Ernst & Young, S.A.



Portugal climbs two positions in the European ranking for FDI project destinations, reaching the eighth position in 2021

Investors are confident in a resilient and prepared Europe

Europe's response to the pandemic crisis has had a major contribution to building a good perception of the resilience of the economy in adverse circumstances. Through the various instruments applied at EU, it was possible to ensure social peace and economic stability by the EU. The economic downturn has not been as sharp as it was feared.

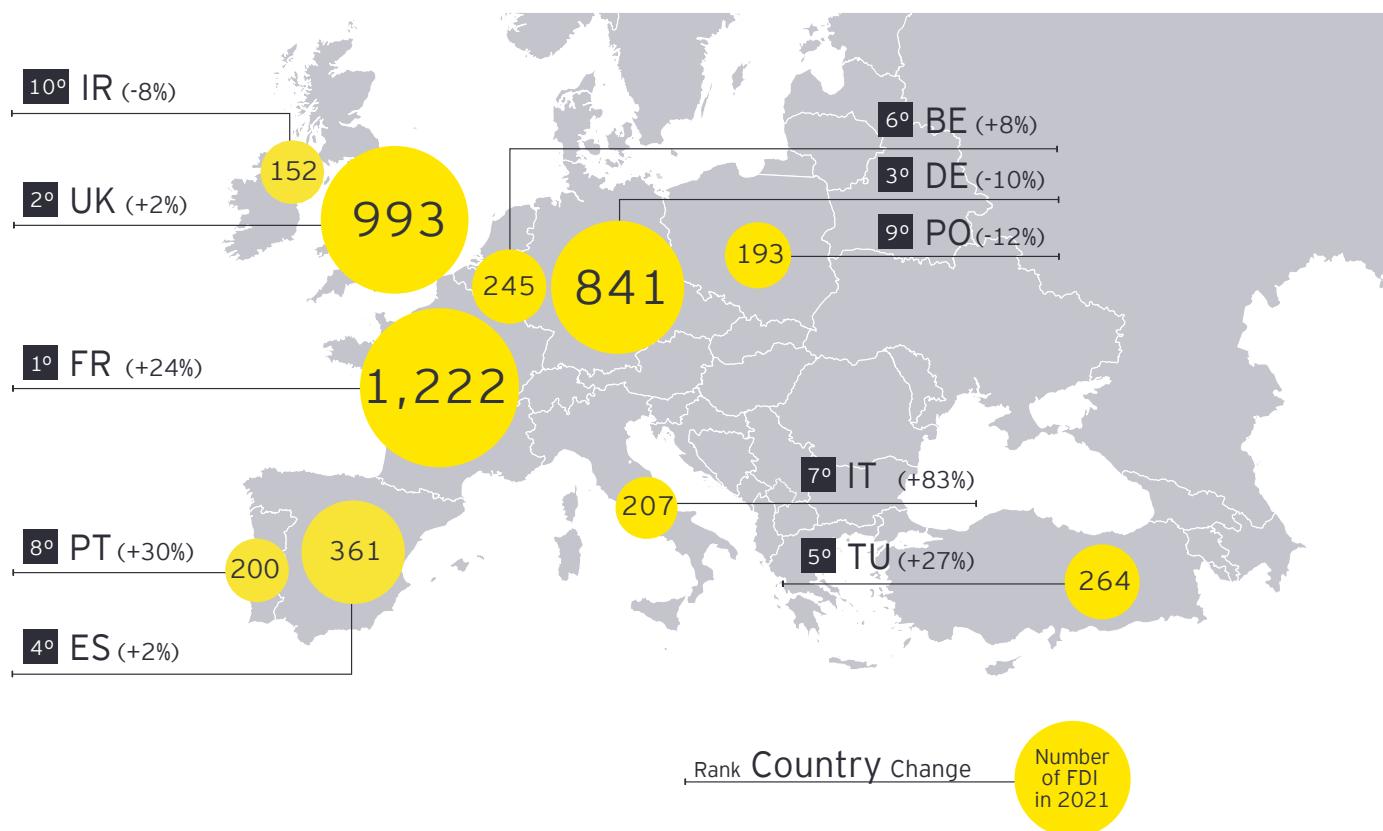
This credibility bolsters investors' confidence that Europe could deal with uncertainty. Therefore, despite the instability experienced on the continent due to the conflict between Russia and Ukraine, investors continue to look at Europe as a stable and secure market for investment.

The rise of Southern Europe

In Europe, the performance of Southern countries stands out. In particular, Italy (+83%), Portugal (+30%) and Turkey (+27%) record a significant growth in announced investment projects.

Portugal climbs two positions in the European ranking for FDI project destinations, reaching the eighth place in 2021. In the last year, Portugal recorded the second highest growth in FDI attraction among the top 10 FDI leading countries in Europe. 2021 was, therefore, a year of consolidation of Portugal's FDI attractiveness.

Figure 3: Top 10 FDI projects destinations in Europe



Source: EY European Investment Monitor 2022

Supply chain reorganization puts Southern European countries, including Portugal, in spotlight

Nearshoring comes as a stronger option than before

Wars, as any other global shock, generate risks and opportunities for foreign investment. Indeed, businesses once again, as it was during the COVID-19 pandemic, are considering reorganizing their supply chains to prevent such shocks to damage operations in the future. This is confirmed by the top three answers about the ways supply chains are being changed: nearshoring operations closer to customers (53%), more regionally focused supply models (45%) and reshoring activity back to their domestic market (43%) reported on the *EY Attractiveness Survey Europe 2022*. Although the pandemic raised those same concerns at the time, not many businesses have acted accordingly perhaps because of the costs of shifting supply chains back to Europe. However, some new reasons collectively give strength to the nearshoring panorama. The search for alternatives regarding the products previously imported from Russia places strong supply chain constraints and erodes margins as other markets, such as Asia, fill the gap

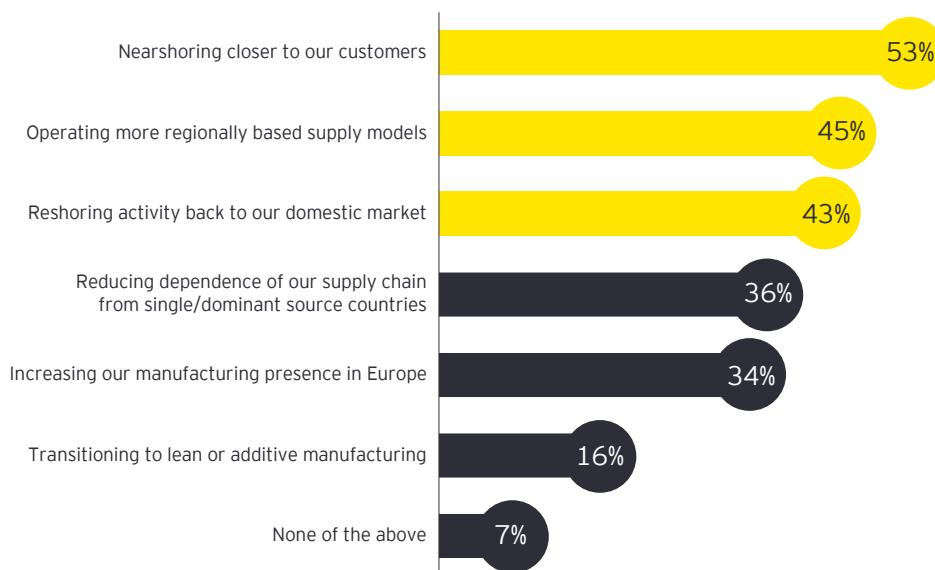
left by the war in Ukraine. Adding to this, the increasing regulatory and consumer pressure to decarbonize supply chain makes local sourcing a more compelling business case.

Reshoring and nearshoring trends that favor Portugal

The pandemic crisis has prompted a reflection on global value chains. From here, it has recalled an attempt by the main markets to limit their exposure to the fragility of supply chains. In Europe and North America, a trend of relocating investments emerged. Portugal is among the European countries that seem to offer better conditions for the setting of these investments.

This is manifested in the increased attractiveness of the country and in the growth in the number of announced projects. A real challenge in this context is to improve the attractiveness of the different Portuguese regions, investing in supporting conditions and promoting public policies to this purpose.

Figure 4: How are you changing your supply chain setup?



Source: EY Attractiveness Survey Europe 2022 (total respondents: 501)

A record year for Portugal: 200 FDI projects achieved for the first time

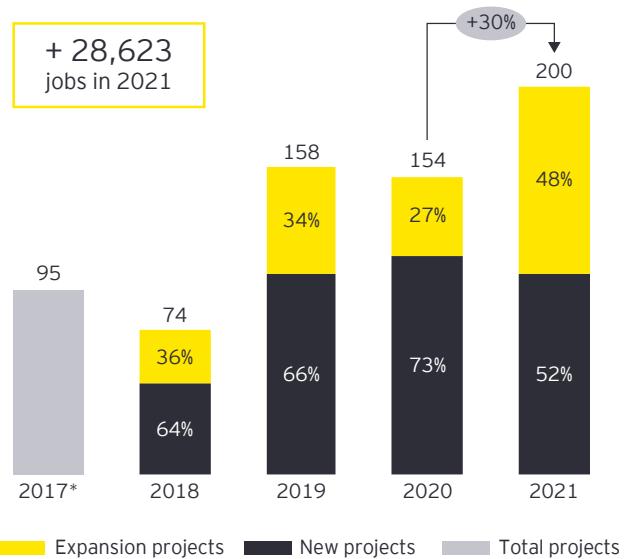
Portugal reaches for the first time the 200 projects resulting from FDI

Portugal reaches for the first time the 200 FDI projects in a year. According to EY European Investment Monitor historical data, 2021 was the record year for Portugal in terms of announced FDI projects. This shows that the increased attractiveness of the country has materialized in an effective growth on projects.

In 2021, there was a 30% increase in the number of FDI projects established in Portugal, more than doubling the 2017 results. This translates into a compound growth rate of 20.6% between these years. Portugal has also registered the second biggest growth in FDI projects from the countries in the European top 10.

About 48% of FDI projects in Portugal result from expansion operations. Investors are comfortable and confident with the conditions that Portugal has to offer. These good relations with established investors are to be valued. However, it is important to reverse the negative trend in new projects and attract new investors. It is estimated that the announced FDI projects will generate at least 28,623 new jobs.

Figure 5: FDI projects in Portugal



Portugal on the investment radar of the United States, Germany, France, United Kingdom and Spain

For Portugal, Europe continues to grow in number of projects and share

Individually, the United States maintains the top position as the main investor in Portugal with 30 projects which represent 15% of the total. However, in 2021, it shared the position with Germany which doubled the number of projects compared to the previous year. France (14.5%), the United Kingdom (12.0%) and Spain (11.5%) round out the traditional top five investors in Portugal.

The countries of the European continent continue to assert themselves as the main investors of the Portuguese economy. In 2021, 150 projects from these countries were identified (42 more than in 2020), thus Europe accounted for 75% of FDI projects in Portugal.

Moreover, Portugal's importance in total European FDI projects has also been increasing. Between 2018 and 2021, the relative weight of Portugal in total FDI projects in Europe rose from 1.2% to 3.4%.

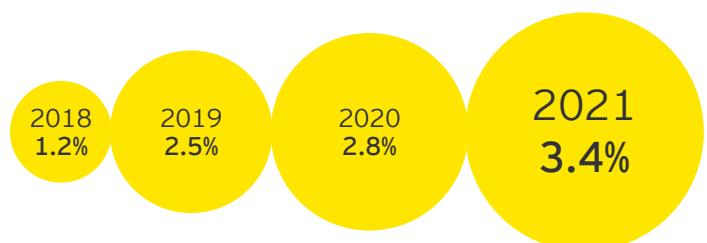


Table 2: Top five countries of origin of FDI projects in Portugal

Rank	Country	FDI projects	Share
↑ #	EU	150	75.0%
→ 1	United States	30	15.0%
↑ 2	Germany	30	15.0%
→ 3	France	29	14.5%
↓ 4	United Kingdom	24	12.0%
↑ 5	Spain	23	11.5%

Source: EY European Investment Monitor 2022

Figure 6: Share of Portugal in Europe FDI projects



Source: EY European Investment Monitor 2018-2022

Viewpoint

Internal viewpoint



Miguel Farinha

Partner, Strategy and Transactions,
EY Portugal

“

Portugal can have a significant role in being not only the bridge between the European block and other markets, (...) but also the comfort zone for investors to deal with uncertainty.

Portugal, a “gateway” to the European continent

2021 was a year marked by the emergence of new challenges. The world saw rising supply chain's freight costs in major European, Asian and American ports. Adding to this, we are seeing a European industrial reallocation tendency and many other new challenges, such as rising inflation, interest rate hikes, the conflict in Ukraine and increasing energy prices, which are imposing relevant threats to all stakeholders.

As identified by the European Investment Monitor, Portugal registered a 30% growth on the number of FDI projects and is now one of the most attractive countries for manufacturing reshoring and nearshoring. It is an increasing trend, as 45% of investors are operating more regionally based supply models, trying to mitigate supply chain risks. Such results indicate the higher investors' confidence in Portugal, even despite the growing challenges that Europe and the world are facing, making the country a safe zone for investors to deal with uncertainty. So, leveraging its geographical position and social and political stability, Portugal can establish itself as the “gateway” of Europe. The country could have a relevant role as a logistic hub, including LNG imported from Northern Africa. Sines, ranked the third most efficient port in Europe in 2021 and already served by global shipping lines, is in itself an area of investment opportunities. Manufacturing is also an area of opportunity, with large players continuously reinvesting in the country to supply their European and global value chains. Finally, the quality of digital infrastructure and the availability of versatile and high-performing talent, are already confirming Portugal as a hotspot for services project.

These opportunities combine into a strong potential for more external investment and attraction of foreign companies, entrepreneurs and digital nomads, creating a culture of innovation and constant disruption in the country.

Portuguese SMEs will soon face lower access to credit and higher cost of debt, as a result of the expected interest rate hikes from the European Central Bank.

Also, tighter sustainability standards, will be pushed by governments and consumers, which are increasingly aware of environmentally friendly activities. Despite the apparent negative outlook, there are a number of opportunities for Portuguese companies. If seized, they could leverage and transform the current business environment from micro and small companies into larger-corporations, capable of leading in global markets. To start, the Portugal's RRP should be significant and effective regarding the private sector. Then, corporate investment could be based on 4 vectors: innovation, digital transformation, sustainability and export orientation.

According to the BoP, in 2022, the portuguese economy is expected to grow 6.3%, while the European Commission estimates that it will be the fastest growing economy this year. But, for Portugal to continue at the forefront of European economic growth, constant dialogue should be maintained between the national government and companies.

Portugal can have a significant role in being not only the bridge between the European block and other markets, but also the comfort zone for investors to deal with a complex landscape.

EY is here to cooperate with all stakeholders to further develop Portugal's foreign perception and to promote the FDI projects increase. Our teams remains committed in providing services of excellency to its clients, by offering a clear approach for connecting strategy, transactions, transformation and technology.

Portugal's attractiveness had a remarkable growth and further improvements are expected

Portugal's attractiveness increased significantly in 2022

More than 60% of investors surveyed want to invest in Portugal over the next year. This represents a substantial growth compared to the previous year (37%), conditioned by the impacts of the pandemic on investors' decisions. The investment intentions for 2022 reinforce the trends of recovery and even the improvement of the Portuguese attractiveness, that has been going on since 2019.

The growth of investment intentions shows that investors are confident about business opportunities in Portugal, even considering the uncertainty that is hanging over Europe. In fact, increased uncertainty seems to have led investors to markets that provide relative stability and resilience. This benefited Southern Europe in general and Portugal in particular.

Despite the remarkable results, Portugal can improve even more

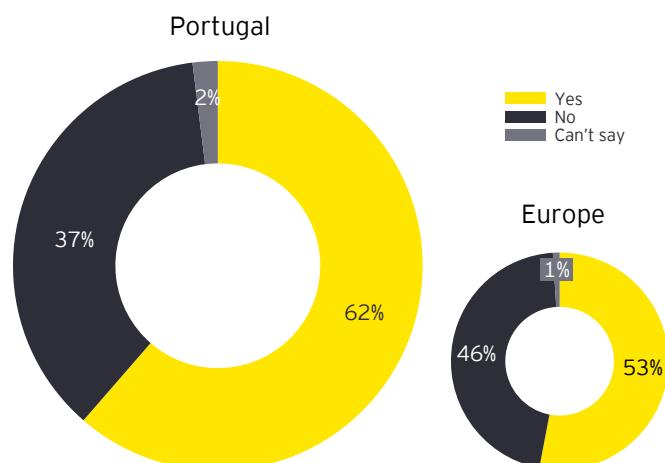
About 60% of investors believe that Portugal's attractiveness will improve in the coming years. Portugal ranks fifth among European countries in relation to the potential attractiveness in the medium term.

The significant increase in attractiveness in the short and medium term shows that investors are optimistic and attentive to investment opportunities in Portugal.

However, it should also be noted that 27% of respondents believe that Portugal will decrease its attractiveness. It is the highest value on record.

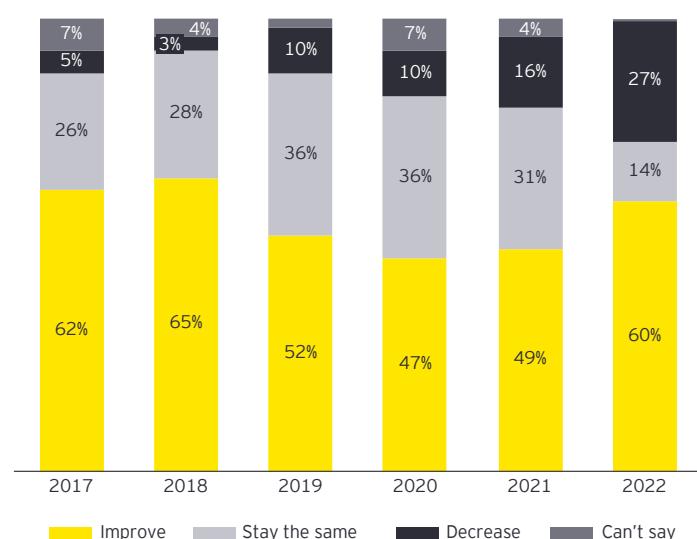
It is important for the country to understand what drives these investor fears. Through a closer relationship with investors, the country can implement policies capable of renewing and boosting its competitiveness and its attractiveness factors.

Figure 7: Does your company have plans to establish or expand operations in Portugal over the next year?



Source: EY Attractiveness Survey Portugal 2022 (total respondents: 200)

Figure 8: To what degree do you think Portugal's attractiveness will evolve over the next three years?



Source: EY Attractiveness Survey Portugal 2022 (total respondents: 200)

Portugal maintains high standards on traditional attractiveness factors ...

Quality of life and social stability as crucial factors of attractiveness

The investors surveyed agree that Portugal is very attractive in relation to the quality of life it offers and the stability of the social climate that characterizes the country. However, there is a fall in the assessment of these indicators in relation to the previous years.

After the pandemic, new trends in the labor market emerged and others were strengthened. In particular, the appreciation of work-life balance and the emergence of work at home. The scarcity of talent that plagues Europe leads to an increase in competition between the recruiters. The social conditions in which they are inserted can assume a differentiating factor in this process. These are factors that Portugal needs to strengthen in order to maintain its long-term attractiveness.

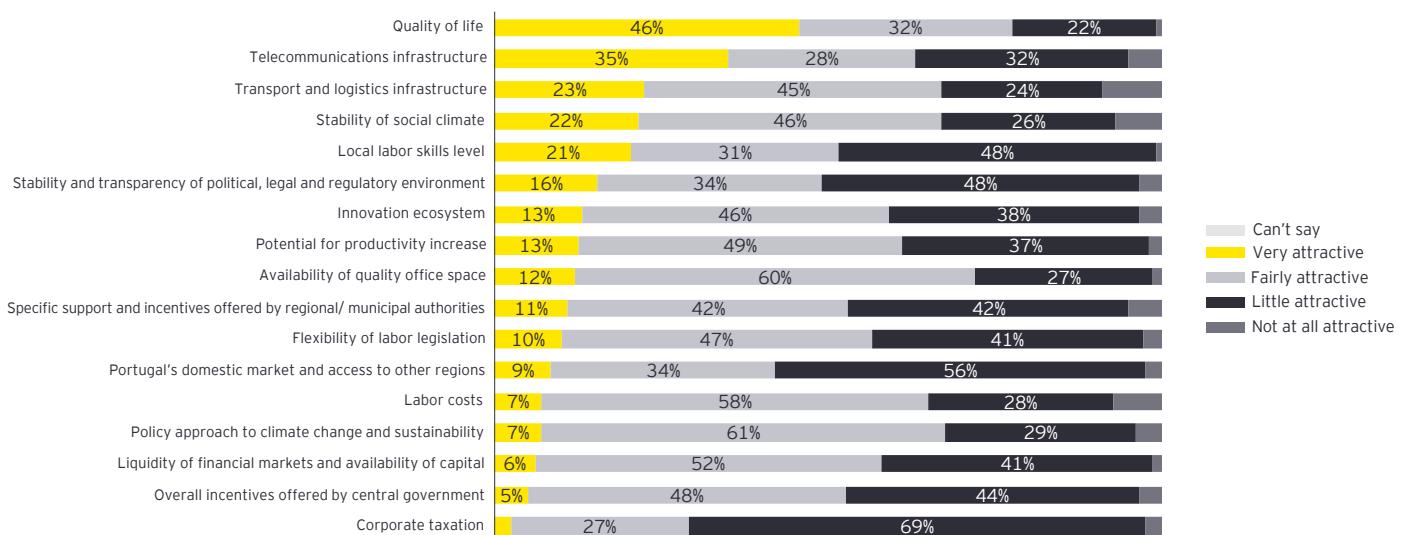
Portugal with the right policy in combating climate change

The policy approach to climate change and sustainability are factors of attractiveness for 67.5% of investors surveyed. This represents a growth of 13.5 p.p. compared to 2021. Portugal has demonstrated a strong commitment to renewable energies and circular production processes. Portugal seems to be the right place for investors who want to help build a greener world.

A good infrastructure network and space available for businesses

The quality of infrastructure remains at the top of Portugal's main attractiveness factors. However, there was a decrease compared to the previous year (transport and logistics infrastructure went from 74% to 67% and telecommunications infrastructure went from 77% to 63%). About 72% of investors surveyed value the availability of quality office space in Portugal.

Figure 9: For each of the following criteria, how would you rate Portugal as a foreign direct investment destination from your company's point of view?





... while it prepares for an economy based on digitalization and sustainability



Global Peace Index 2021
Vision of Humanity
163 countries

Quality of life is one of the main characteristics attributed to Portugal. Part of this characteristic results from the natural conditions that Portugal has, with climate standing out. In addition, social stability is a recurring attractiveness factor. Portugal is often touted as one of the safest countries in the world.

The response to the pandemic confirmed Portugal's ability to respond to situations ensuring social peace. The organization and effectiveness of Portugal has been referenced internationally as an example of good practices.



English Proficiency Index 2021
Education First
112 countries

Portugal's commitment with the education of its citizens guarantees the country the availability of highly qualified people.

The proficiency of English is an example of the high communication skills that Portuguese have, essential condition to collaborate in a highly globalized world. However, in recent years the demand for talent has increased. This may cause constraints in the labor market in the future related not with quality but about the number of skilled workforce.



39º

Ease of Doing Business Index 2020

World Bank Group

190 countries

5º

Use of renewable energy 2020

Eurostat

27 countries

Portugal remains an economy favorable to the private sector and committed to attracting new investments.

This is demonstrated in the pro-business environment that characterizes Portugal. In particular, the country has sought to encourage projects of high added value, marked by a strong component of innovation.

The country has invested in improving infrastructure, which was already considered of excellence, in order to better prepare for a green and digital economy.

Portugal is highly committed to the transition to a decarbonized economy. To this end, the country has invested significantly in renewable energies, which enabled, for example, the early closure of coal-fired power plants.

In addition, Portugal has actively promoted the reconfiguration of business models with its companies.

The objective is to normalize the adoption of circular production systems.

Portugal has the ambition to assume itself as a world leader in combating climate change.

7º

Corporate digitalization Index 2020-2021

European Investment Bank

30 countries

1º

Work from wherever Index 2022

Kayak

111 countries

Portugal has supported the adaptation of its business ecosystem to a more technological economy.

This has been done by promoting process automation, digitalization of services and encouraging investment in R&D of technology solutions.

However, for companies to maximize the benefits of the digital economy, they need an infrastructure network capable of meeting new needs. The country has responded to this by investing in the renewal of its infrastructure network.

Through digitization, the Portuguese economy is expected to achieve significant productivity gains.

The transformations that characterize the today's world are transversal to the various dimensions of the economy. As such, they also cover the relations between employers and workers.

The high standards of living possible to achieve in Portugal has been a factor of attractiveness of qualified talent for the country. Evidence of this is the proliferation of digital nomads all over the country. The new forms of work have allowed the concentration of more qualified and diverse talent in Portugal.

Viewpoint

External viewpoint



Etienne Huret
CEO of Natixis in Portugal

“

From day one, we have had the support of government and municipal authorities so that our implementation was done in an informed and structured way.

The right support to grow

From day one, we found in Portugal the ideal ecosystem to grow the Natixis Center of Excellence project and an amazing entrepreneurial and innovative mentality, combined with a rich and diverse pool of talent. In addition, the geographical proximity - in Porto, two hours by plane from Paris -, the historical and cultural connection between Portugal and France and the excellence of the talent were determining factors in our decision.

We arrived in Portugal in 2017, with the goal of recruiting 640 people in Information Technology. Today we are already more than 1,800 employees, of 30 nationalities, from different areas, ranging from IT to Law, to those more specific to the banking sector. Natixis in Portugal integrates Global Financial Services, the international segment of Groupe BPCE, develops solutions for Asset & Wealth Management and Corporate & Investment Banking and, transversally, for all the entities of Groupe BPCE. In Portugal, we are able to make the most of the combination of excellent talent and an entrepreneurial mentality, developing innovative solutions in terms of business, operations and work culture, for operations on a global level. That allows us to transform banking in a disruptive way.

It's a perfect match between the dynamic labor ecosystem and Portuguese entrepreneurship, combined with a culture of agility and proximity.

From day one, we have had the support of government and municipal authorities so that our implementation was done in an informed and structured way. From Porto, we have also benefited from the great proximity with universities, startups and fintechs. To address the shortage of talent in very specific areas of the banking sector, we developed, in partnership with Porto Business School, a course aimed at professionals with experience in Finance, Banking or quantitative models, who wanted to deepen their technical skills with a view to career progression, specialization or who wanted to be trained for new professional challenges.

In Portugal, we feel at home, we get very involved with the community and we invest. It's our way of being. Since our arrival, we have also committed to developing internal policies and practices to promote diversity and inclusion, especially in the technology sector. In 2019, we launched the Champion for Change program, through which we promote diversity and inclusion in the technology sector in Portugal. We are also part of the WINN - Women in Natixis Network - an employee community, whose goal is to promote inclusion and diversity in the workplace, and which received an honorable mention in the Diversity Seal 2021 awards.

It is the wealth of talent we find here and the projects we have taken from Porto to Paris that will allow us to continue to be competitive and to project a future of growth in Portugal.

2

The small picture: A closer look into sectors and FDI trends

52%

of investors expect
digital economy to be
the business sector that
will drive Portugal's
growth in the coming
years

65%

of investors believe the
country is performing
similarly or better
than the European
average regarding
sustainability-related
factors

53%

of investors consider
talent specialized
in IT to be the hardest
to attract



Same FDI podium of last year: software and IT services, transportation manufacturers and suppliers and transportation and logistics

The FDI projects confirm digital economy to be one of the engines of Portugal, as software and IT services continued to be the leading sector of FDI

As the most dynamic ecosystem, registering 65 FDI projects split almost equally between companies expanding or establishing its operations in Portugal, software and IT services grew 30% from 2020.

Justifying this growth, there has been a number of companies looking to Portugal as a place to locate their offices. For example, Lisbon is to receive investments that will create at least 300 jobs in the near future, including those that could work in hybrid or 100% remote mode.

Transportation manufacturers and suppliers came in second place in number of FDI projects showing signs of recovery and growth

28 FDI projects were registered in this sector, which are great news after the dip of 58% registered between 2019 and 2020.

Multinationals keep investing in Portugal. While some investments are related to expansion of existing plants, the search for joint projects with top research institutions is also gaining traction.

Transportation and logistics follow growing global trends

Two vectors are identified for this bronze medal achievement. The first is regarding the recovery of the global demand after the pandemic gradual resolution with vaccination programs and borders' flexibilization. The second concerns the nearshoring trend that started to be installed globally as companies wanted to reduce risk of global chains being stalled.

In fact, 68% of the survey respondents find transport and logistics infrastructure at least fairly attractive, which is justified by major passenger and transportation airlines expanding their operations in Portugal.

Furniture, wood, ceramics and glass, a sector to pay attention

All the nine FDI projects registered were manufacturing-related and were responsible for at least €200 million that were mainly invested in the North region of Portugal.

Portuguese regions with tradition in the furniture manufacturing, such as Paços de Ferreira, are on the route of planned investments in the sector.

Table 3: FDI projects in Portugal by sector

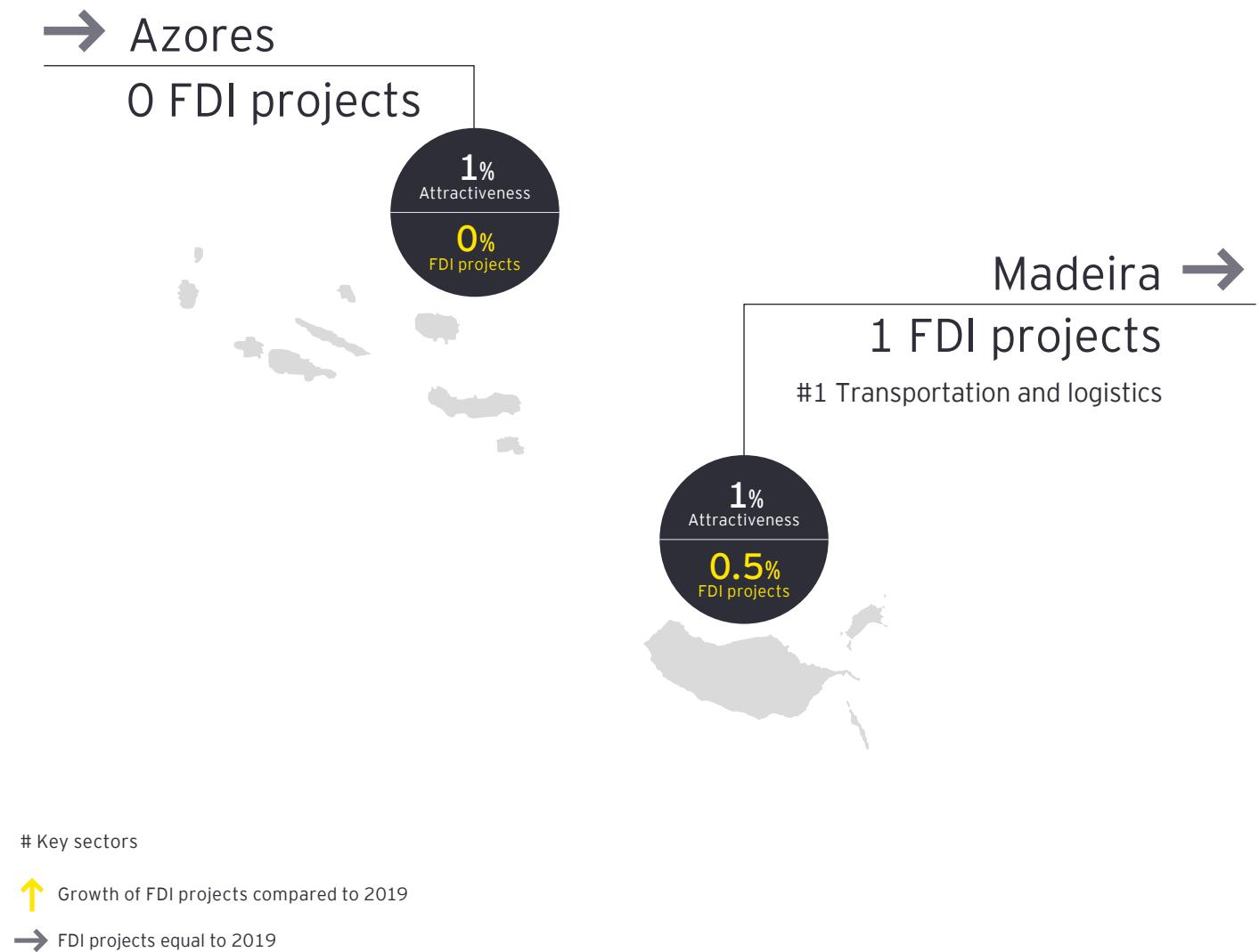
Rank	Sector	Number in 2020	Number in 2021	Sector growth
→ 1	Software and IT services	50	65	15
→ 2	Transportation manufacturers and suppliers	13	28	15
→ 3	Transportation and logistics	10	17	7
↑ 4	Machinery and equipment	7	10	3
↑ 5	Furniture, wood, ceramics and glass	4	9	5
↑ 6	Pharmaceuticals	7	9	2
↓ 7	Business services and professional services	8	8	0
↑ 8	Utility supply	2	6	4
↓ 9	Finance	8	6	-2
↑ 10	Electronics	2	6	4
	Other sectors	34	36	

Source: EY European Investment Monitor 2022

↑ Increased position → Unchanged position ↓ Decreased position

Lisbon area keeps the lead from pre-pandemic levels in overall attractiveness and number of FDI projects

Figure 10: Attractiveness and FDI projects by region



Source: EY Attractiveness Survey 2022 (total respondents: 200); EY European Investment Monitor 2022

↑ Northern Portugal

69 FDI projects

- #1 Transportation manufacturers and suppliers
- #2 Software and IT services

23.5%
Attractiveness
34.5%
FDI projects

↑ Central Portugal

36 FDI projects

- #1 Transportation manufacturers and suppliers
- #2 Furniture, wood, ceramics and glass

17.0%
Attractiveness
18%
FDI projects

↑ Lisbon area

81 FDI projects

- #1 Software and IT services
- #2 Transportation and logistics

55.5%
Attractiveness
40.5%
FDI projects

↑ Alentejo

12 FDI projects

- #1 Transportation manufacturers and suppliers
- #2 Transportation and logistics

0.5%
Attractiveness
6%
FDI projects

→ Algarve

1 FDI project

- #1 Business services and professional services

1.5%
Attractiveness
0.5%
FDI projects



Case study

“

BorgWarner's investment (...) is a clear demonstration of Portugal's attractiveness for high value-added projects and a clear commitment to the future of electric mobility.

Luís Castro Henriques

Chairman and CEO of AICEP Portuguese Trade and Investment Agency

Future of mobility through BorgWarner reinforces Portugal in its roadmap

BorgWarner is a North-American multinational and is one of the world's largest producers of components for the automotive industry. Present in 22 countries and 96 locations, the company broke ground for a new electrification plant in Viana do Castelo. The project is part of the Charging Forward initiative in which BorgWarner aims to accelerate its electrification strategy, having already announced plans to grow electric vehicle revenues to approximately 45% by 2030.

The new 17.000 square meter facility, which amounted to €100 million, will cover different business areas, including operations, engineering, quality and purchasing and is expected to create more than 300 new jobs.

It is an investment to address the European market as it is a very important manufacturing base for global automakers.

Source: Press release BorgWarner and AICEP Newsletter, October 2021

Manufacturing and R&D lead as Business services find a home in Portugal

Recovery is one of the main ingredients for the significant growth registered from last year's values

In general, all main activities saw an increase in the number of FDI projects registered in 2021, except for sales and marketing and logistics. Looking at the evolution from pre-pandemic levels, it is possible to observe that the main sectors have already recovered or improved from the 2019 values. An example are manufacturing projects, who represented 74 projects in 2021 while only represented 60 projects in 2019.

Manufacturing once again the FDI leader in Portugal

The sector of manufacturing was responsible for 74 FDI projects in the country, i.e., 37% of all projects. Not only this sector ranked first in terms of number of projects, but was also the sector that showed the highest increase: 100% growth from 2020.

R&D comes second but showing significant growing consistency

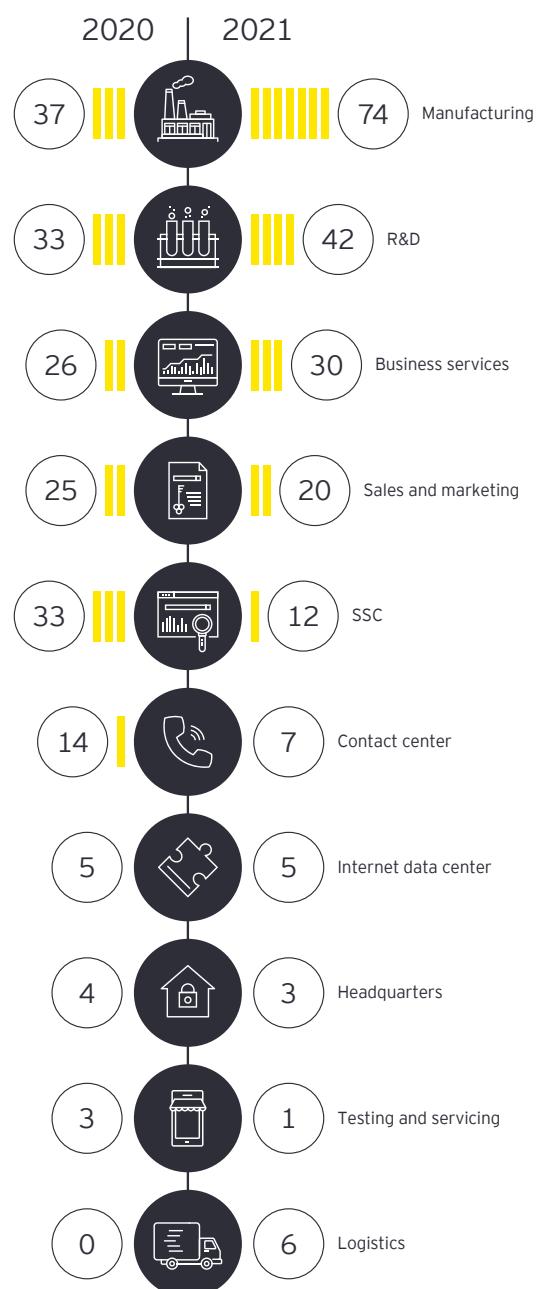
R&D projects represented 21% of FDI projects in Portugal. It totaled 42 FDI projects mainly linked to investments in software and IT services (67% of all R&D investments). The category showed a significant growth of 27% from 2020 and, when compared to the year 2018, the number of R&D projects in 2021 was almost five times the one registered back then.

Among the investment projects announced in 2021 in this activity are competence centers in various sectors, with global importance.

Business services reaches the podium in the third place that resulted from steady growth year by year

Business services accounted for 15% of the FDI projects in Portugal in 2021, being responsible for 30 projects in 2021, a growth of 15% from 2020. Following the digital trend, 80% of the business services projects were in the software and IT services sector. All in all, at least 8,000 new jobs are expected to be created. Investments are not focused on unique areas, ranging from content management, automation, tourism, leisure, gaming and health.

Figure 11: FDI projects in Portugal by main activities



Source: EY European Investment Monitor 2022

Viewpoint

External viewpoint



Luís Castro Henriques

Chairman and CEO of AICEP
Portuguese Trade and Investment Agency

“

When you look at the profile of FDI in Portugal, one sees that we now have a more diverse scene. It is no longer marked by pure industrial investment, but by one where technology plays a vital role.

A more diverse FDI scene in Portugal

As the World is more and more globalized and competition for new and high added value foreign projects keeps on growing, it is important to understand how Portugal is positioning itself to show its dynamics and key competitive advantages for investors.

Portugal is on a growth trajectory, investment-wise. In 2021, Portugal reached a record level of investment, more than doubling the previous record high in 2019 with €2.7 billion, despite all the constraints posed by the COVID-19 pandemic. This record amount of investment is the culmination of a consistent work done by Portugal in the previous years not only to attract an increasing number of new investors, but also to support existing key investors in reinvesting in their Portuguese units. So what are the main factors enabling these results? Portuguese talent is today the key driver behind many investment decisions into the country. Without a competitive workforce, innovative investments cannot be raised. We have the third highest rate of engineering graduates in Europe, capable of creating industrial solutions that are one-of-a-kind. It's not only Made in Portugal but Invented in Portugal too.

Social and political stability also plays a major role in the Portuguese dynamic for new investors. Portugal is considered a low-risk country, welcoming foreigners as nationals. This is very significant for newcomers as this topic is becoming more present in the meetings held with investors.

When you look at the profile of FDI in Portugal, one sees that we now have a more diverse scene. It is no longer marked by pure industrial investment, but by one where technology plays a vital role. In the last edition of EY Attractiveness Survey Portugal had R&D activities, especially in the areas of digital and information technology, as the second largest sector receiving new projects.

Portugal now has more than 140 Tech hubs with a global reach, developing a wide range of software and telecommunication solutions. Portugal has become the largest software development hub for the German automotive industry outside Germany. Even the manufacturing projects now show this strong link to technology. As an example, our automotive industry is now working on the transition to the electric vehicle as new projects are developed nationally. Portugal's goal is to keep on attracting highly added value projects. Our ambition is to have new projects that can deliver products and services, with a high demand on international markets and that are a showcase of our skills, our talent and our innovative profile. AICEP will keep on focusing on companies where the level of product complexity is higher, to make sure that the Portuguese competitive advantages are targeted by the most rewarding projects.

The challenge is quite clear. To make Portugal the right choice as the country where companies can come to produce state-of-the-art innovative products and services for a global market.

Digital economy, cleantech and renewables and real estate identified as the main drivers for Portugal growth in the coming years

Digital economy - becoming the usual contender to lead Portugal's growth in the future

More than half (52%) of the investors ranked digital economy to be the business sector that will drive Portugal's growth in the coming years, repeating the result from the last report.

It is true that the COVID-19 pandemic brought transformation and accelerated digitalization in a short amount of time. But it is also true that it was not a temporary behavior change. According to the EY-Parthenon 2022 Digital Investment Index (DII) companies are making record-breaking investments in digital transformation this year, up 65% from 2020 and Portugal is no exception. The most significant was the €3.5 billion investment announced in a large-scale data center in Portugal to tap demand from global tech firms. About this investment, the Portuguese Prime Minister said it was "the largest FDI in Portugal in recent decades".

Cleantech and renewables reaches the second place in investors perceived relevance

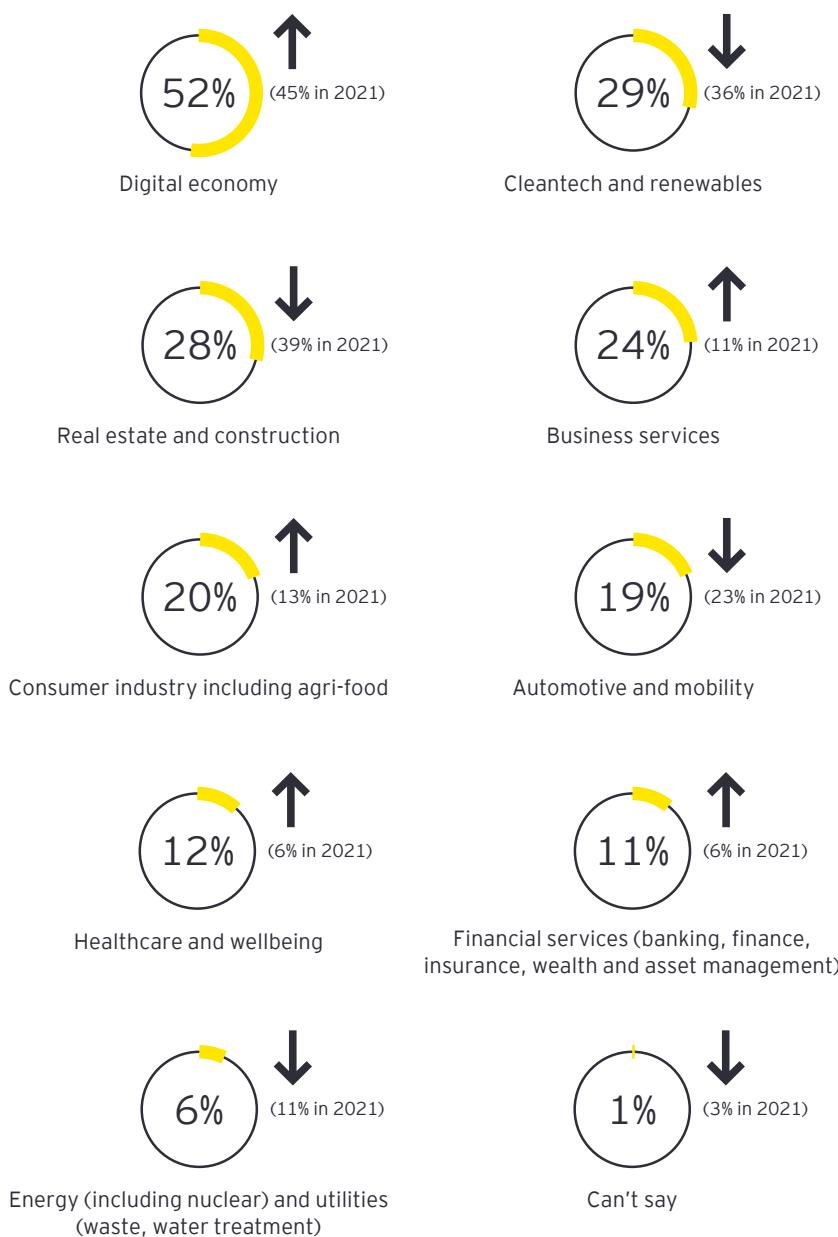
Portugal, according the Enerdata Yearbook, places in 8º globally when it comes to the share of renewables in electricity production (~60%). Portugal, therefore associated with diverse sources of renewable among energy such as solar, wind, hydro, others, is welcoming big projects in cleantech and renewables. Portugal's potential has been attracting important investments in solar energy-related projects.

It is the first time cleantech and renewables (29%) surpasses real estate (28%) as a more important driver of Portugal's growth in the short-term. This may result from the shift of priorities regarding climate change and energy transition.

Real estate and construction will not close for works

In the short-term, real estate and construction is considered to be the third largest growth driver with 28% of positive answers but having seen a gradual decrease in its perception as a main driver of Portugal's growth. Nevertheless, as one of the most traditional industries (real estate), Portugal is no exception to the appearance of *proptech* - "property technology". Some investments in this area have also been announced for 2021, with the focus on income security and sustainable growth of the real estate market.

Figure 12: In your opinion, which main business sector will drive Portugal's growth in the coming years?



Source: EY Attractiveness Survey 2022 (total respondents: 200)

Viewpoint

External viewpoint



José Cardoso Botelho
CEO of Vanguard
Properties Portugal

“

(...) Portugal, a country strategically located, safe and with excellent infrastructures, with a privileged climate and unique renewable resources (...), has, in fact, an exceptional potential for FDI attractions in the real estate sector, in the various segments.

Real estate: a sector where potential looms

Portugal should invest in attracting FDI in real estate, a sector that represents about 15% of national GDP.

The real estate sector in Portugal in its various segments, especially in the residential, tourism, office and logistics sectors, maintains a high attractiveness and potential for growth and development. In the residential "build to sell" segment and in the premium segment, the potential is particularly high. For a set of historical reasons such as the freezing of rents for decades, some of the main urban centers still have a high number of buildings to be rehabilitated and an insufficient supply in the face of a growing national and international demand - in the residential segment, demand is 10 times greater than the new supply. Currently, about 90% of annual sales are of used assets, and more than 85% of the existing stock does not meet the level of demand of current customers.

Sustainability and innovation will be an extremely relevant driver in this market in the coming years, whether by legal and regulatory imposition, or by the growing importance that customers give to the topic. This "revolution" should involve the entire ecosystem: the developers, builders, designers, lenders and appraisers and other stakeholders.

It is important to note that the lack of manpower and sustainability standards will determine the growth of the industrialization of construction processes.

And I emphasize this point, since construction will gradually move from on-site to off-site processes, while ecologically materials will be used promoting the development of truly sustainable buildings (with low or zero CO2 emissions and thermally and energetically advanced (NZEB - Near or Net Zero Energy Buildings).

A particular focus should be dedicated to the decentralization of energy production, for example, embedded in energy communities (aiming to secure supply via sustainable production and lower cost) and, where possible, coworking spaces within the properties.

It is imperative to make strong investments in the sector, with incorporation of new materials and building systems, including the use of natural materials (e.g., even as a way of boosting investment in the forest), reducing the use of cement structures, responsible for about 7% of global CO2 emissions. Until 2030 the new rules are challenging, meaning that real estate, from 2026 onwards, will have to integrate the necessary innovations to meet the goals of the European Union Green Deal.

For those who can introduce new real estate concepts, with off-site construction, using natural, renewable and highly efficient and sustainable materials, Portugal is a market of high potential.

Portugal, a country strategically located between three continents, safe and with excellent infrastructures, with a privileged climate and unique renewable resources in the European context, has, in fact, an exceptional potential to attract FDI in the various segments of real estate sector.

R&D in Portugal: from being residual in perception to becoming very attractive in relation to European counterparts

Intentions to invest in Portugal put R&D first, sales and marketing office in second and manufacturing in third

From the investors that intend to invest in Portugal in the next year, R&D, sales and marketing office and manufacturing represent, respectively, 40%, 22%, and 14% of investment intentions (jointly 76%).

R&D is the most preferred type of investment project that confirms the trend that started last year when 37% was the result gotten, but before, in the 2018-20 period, the average obtained was of 7% of the investment intentions.

Portugal's importance as a technological hub of Europe grows

The growing trend in R&D in Portugal is strengthened by the way investors perceive investment opportunities in other European countries. There is a big gap between the 14%, on average and the 40% of investors intentions to invest in R&D in Europe and Portugal, respectively, which may translate in an increasingly knowledge-intensive economy for the Iberian country.

The European panorama shows that investors are looking to invest primarily in sales and marketing offices and business services operations.

Therefore, influenced by the future of (remote) work, the upswing in FDI in Europe is predicted to be more driven by R&D, supply chain and manufacturing projects. As shown, the anticipation of Portugal to these trends will be key to materialize Portugal's potential to be the R&D hub of Europe.

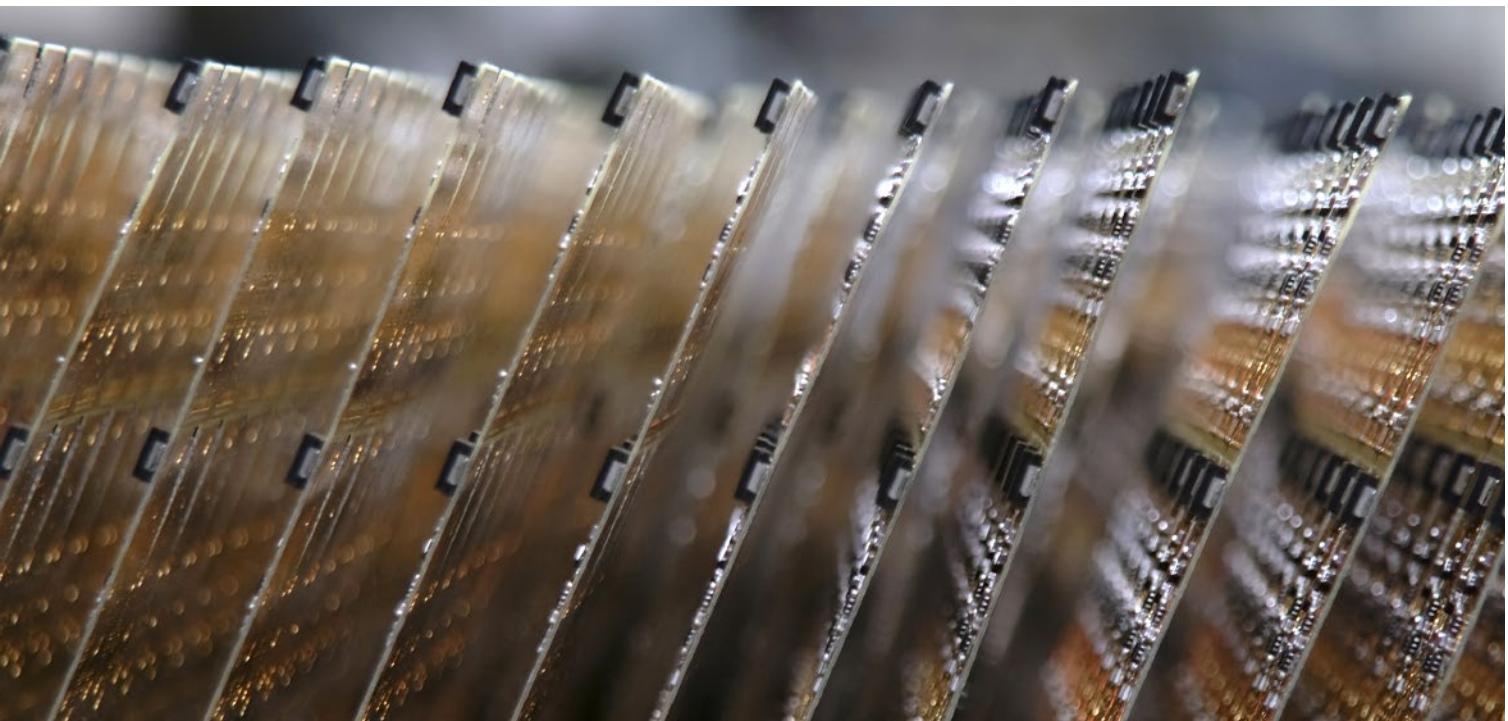
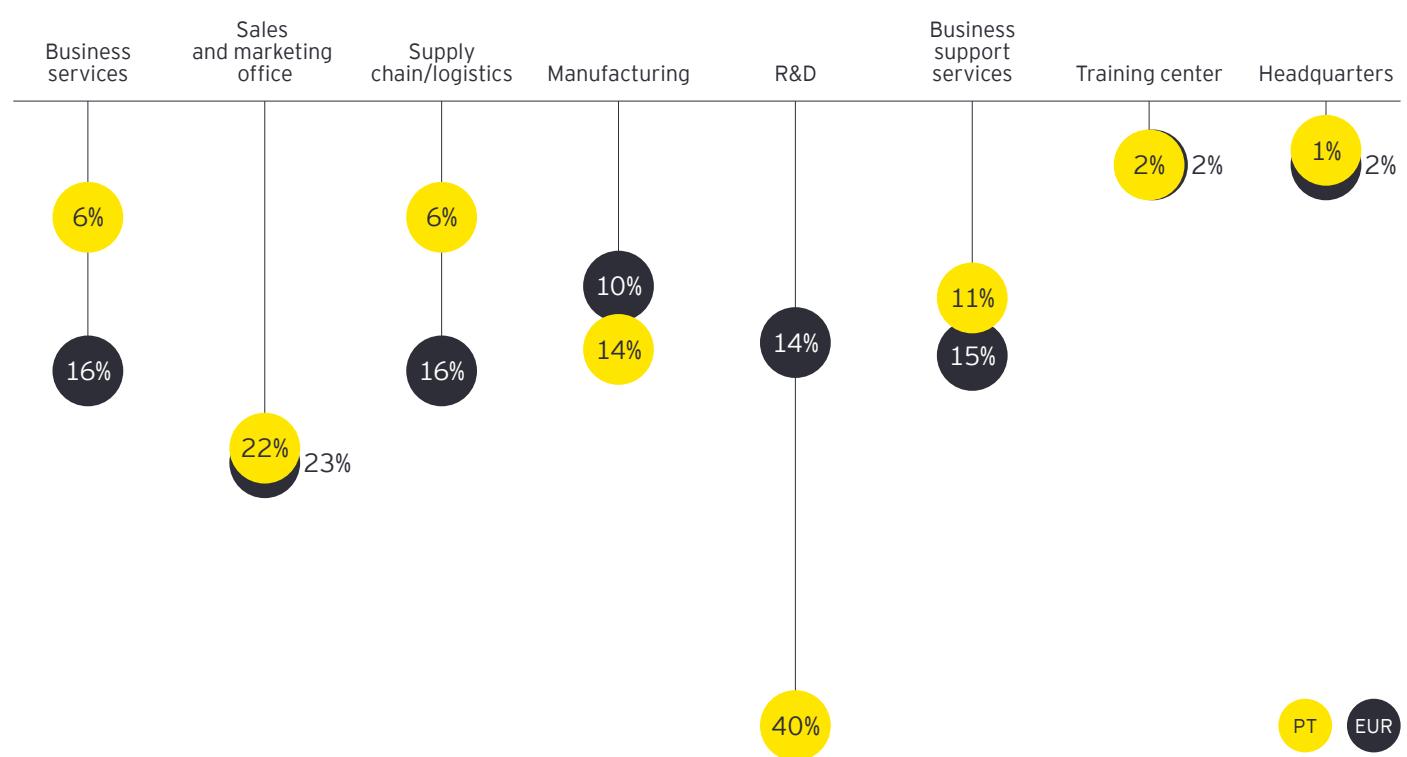


Figure 13: What type of investment project does your company want to establish or expand?

Source: EY Attractiveness Survey 2022 (total respondents: 200)

Notes: EUR: Europe; PT: Portugal; Europe's values were computed as the average of the result gotten on each of the following countries' Attractiveness survey: Belgium, Cyprus, Estonia, Ireland, Italy, Greece, Latvia, Lithuania, Luxembourg, Portugal, Romania, and UK

Viewpoint

External viewpoint



Nuno Sebastião
CEO of Feedzai

“

So how attractive is Portugal for promoting innovation projects? And can Portugal be an innovation hub in the business ecosystem and be an attractive country for investment? The history of Feedzai and other scaleups with Portuguese DNA shows us that it is possible.

Raising the bar through disruption

Feedzai was born as a global company. Our valuation is now over \$1.5 billion, we are the world's first RiskOps platform for financial management, and we have as clients the world's largest banks, acquirers, and fintechs.

Nevertheless, one of the questions I hear most is why we continue to do all of this also from Portugal and with a Portuguese-led team.

So let me go back to the beginning. Feedzai is a global company, with people spread around the world who contribute to our intellectual wealth. However, many of our leaders, who manage strategic projects, were born in a country that had no history (until recently) of leadership. What has changed? The answer lies in a generation of people who know the world and are fully aware of their value, who have benefited from an excellent education, and who know that a professional in Silicon Valley is no better than them just because they were born in a different country.

Still, there is some skepticism. And in fact, no one has ever given us any valid reason not to do it from Portugal. It won't be the size or the location of the country that influences our intellectual or management capacities, much less our ability to grow or attract investment.

But the truth is that, right now, Feedzai is the only company with unicorn status that receives international investment directly in Portugal. And we want to change this reality and continue to strengthen the ecosystem.

So how attractive is Portugal for promoting innovation projects? And can Portugal be an innovation hub in the business ecosystem and be an attractive country for investment?

The history of Feedzai and other scaleups with Portuguese DNA shows us that it is possible. And I can identify four key aspects that are critical to achieving this level of success. Between global ambition, the best talent in the world, and our corporate culture, there is one critical success factor that stands out: R&D investment.

At Feedzai we invest 34% of our budget into R&D which is above the 28% average for companies that did their IPOs in 2018-2021 and 23% for SaaS companies in general. It's this level of primary R&D knowledge investment and creation that truly excites me and that I believe leads to compounding, enduring market leadership for companies in their respective segments.

And not only I am not surprised that we are at the top of this list, I am also absolutely convinced that we have what it takes to keep growing and become a leader in investment and entrepreneurship. And all this will have a multiplier effect on the national ecosystem: more companies, more entrepreneurs, higher salaries, more resources, and wealth for the country.

For the more skeptical, I offer one more fact: the primary knowledge generated from Portugal and by Feedzai makes banking and commerce safer for more than 900 million people in 190 countries.

Let no one doubt that we are capable.

Building the right pool of talent and investing in quality and availability to stand out in a competitive landscape

A significant improvement in the perception of talent in Portugal

Having a talent pool able to respond to the needs of investors is increasingly important for attracting investment. The Portuguese talent remains as a differentiating factor, as three out of four investors consider the availability and quality of talent in the country to be similar or above the European average, a significant increase from the 2021 numbers. Portugal also performs very competitively on the world stage, as it is ranked as the 28th country out of 134 in 2021 in the Global Talent Competitiveness Index.

To ensure the country has the ability to maintain the positive perception about talent and promote retention, the public measures must be aligned with the needs of young high skilled professionals. An attractive tax system and the RRP could be tools for these changes.

The role of the academia and R&D centers as catalysts for talent development

In order to promote talent, the role of the education ecosystem and its different actors is essential to sustain the competitiveness of Portugal's talent needs. The collaboration between business and the academia/R&D centers is seen by investors as a growing factor in Portugal's attractiveness, perceived by two out of three as being similar or better than the regional average. It is also important to reinforce the role of the academia by introducing a more business-oriented curricula, with almost half of the investors surveyed considering it to be better than the European average.

The Portuguese academia has also been able to attract international students, as seen by the increase from 28 thousand in 2011 to 58,000 in 2020, more than doubling the number of foreign students in the country.

“

If Portugal wants to invest in the retention of young professionals during the first half of its career, it may consider using the RRP to make the tax system more attractive to this layer of professionals.

Júlio Almeida

Senior Manager Tax Services,
Ernst & Young, S.A

Figure 14: Investors who perceive ...

... overall talent availability and quality in Portugal similar or better than European average ...



... collaboration between Academia/R&D centers and businesses in Portugal as similar or better than European average ...



Sources: Eurostat, EY European Investment Monitor 2022, EY Attractiveness Survey 2022 (total respondents: 200), INE

Tools to succeed: promoting talent attraction and retention and building a growing workforce that matches the investors' needs

Perceive and act: working to attract and develop the most sought after talent

Understanding the key skills that investors require in a workforce when searching for a new location to establish or expand operations allows to anticipate the needs and mitigate possible challenges to Portugal's talent ecosystem. IT talent and R&D talent seem to be the hardest to attract in the perception of investors.

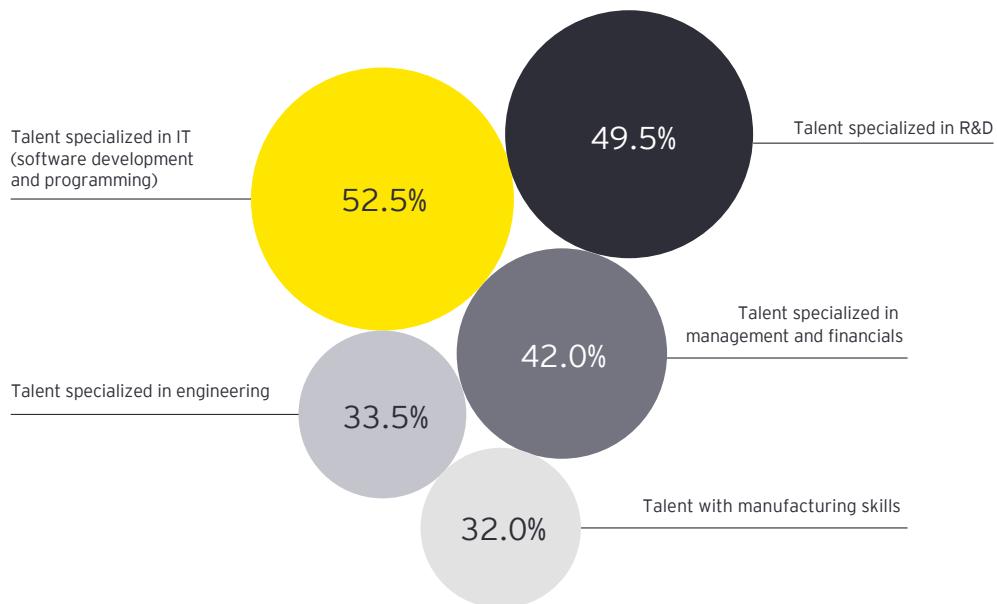
The shortage of IT talent in Portugal is a reality that needs to be tackled. However, the landscape for IT and tech talent seems to be improving, with the number of tech jobs hard to fill¹ consistently decreasing since 2019. The path to build the required talent deemed as important by investors should be addressed by the education ecosystem all while creating conditions to attract top talent in the required sectors.

Quality needs quantity: scarcity of talent is a challenge Portugal needs to address

In order to efficiently match the perception of investors regarding Portugal's talent ecosystem, it is important to focus on developing not only the right talent, but also enough talent in order to respond to a growing demand. Despite the positive perception of the talent ecosystem in Portugal, assuring that not only the quality but the quantity of available talent in areas where investors feel the biggest urge to hire is a key challenge Portugal must try to tackle. It is also important to develop conditions to attract and retain highly skilled talent, particularly in the areas where the demand is more relevant, such as IT.

Creating conditions for reskilling and upskilling in different stages of a career can be a differentiating factor and, simultaneously, a competitive advantage to attract talent. According to the "State of Skills" (2021) report by Degreed, six in every 10 managers felt the urge to retool due to COVID-19.

Figure 15: What specific types of skilled talent do you consider the hardest to attract?



Sources: Eurostat, Degreed, EY Attractiveness Survey 2022 (total respondents: 200), INE

¹Tech jobs (included in the category are, for example, software engineer, programmer, application developer, UI/UX/graphic designer, web developer, frontend developer, backend developer, data scientist, business intelligence, IT support) that last on the platform more than 60 days as unfilled (Indeed)

Viewpoint

External viewpoint



Joana Mendonça
President of ANI
Portuguese National Innovation Agency

“

The Portuguese Innovation Ecosystem is now able to attract talent from all over the world. As the world becomes smaller with digitalization, Portugal's talent is making its way across the world once again.

Building and raising the right talent

Portugal has become increasingly attractive for technology-based development, not only by hosting several high-tech companies that have been basing R&D operations, but also by developing a number of unicorns, becoming one of the European countries with a higher number of unicorns per population. Different factors have contributed to this ability to attract companies to set up technology-based operations in Portugal, including the maturity and quality of the research environment in several scientific fields, the quality of higher education, namely in the technological and digital areas, and a growing number of highly qualified personnel, including PhDs, working with companies and benefiting from support from the Portuguese R&D tax incentives for R&D (a 91% increase since 2015). Patenting by universities and public research institutes has increased, although the country is still below the EU average. Furthermore, the co-publication of scientific papers by academic and business researchers has also been increasing. Portugal ranks 31st in the Global Innovation Index, having human capital and research indicators and creative outputs measures as its major strengths.

These results are a consequence of the definition of a national strategy for R&D and Innovation, which has established concrete targets for Portugal, allowing for the creation of public policies aimed at pursuing these goals. The National Strategy for Technological Innovation has established reaching 3% of GDP in R&D investment, of which 2/3 should come from the private sector; reaching 60% of the Portuguese 20-year-old population in Higher Education; increasing exports to 50% of GDP; developing digital skills at all levels, as well as attracting Foreign Direct Investment, as its main goals.

To support this national strategy, different programs promoting the relationship between academia and industry have emerged, providing a variety of complementary policy instruments that offer incentives for collaboration between academia and industry.

One important example of these programs is the Collaborative Laboratories (CoLAB) program, which was launched in 2018 to promote the collaboration between academia and through public-private partnerships, as well as to contribute to scientific employment. These laboratories were set up to develop research agendas in key thematic areas, addressing societal challenges in issues identified as critical for corporate innovation roadmaps, and using scientific knowledge in different fields. This gave rise to a network of 35 collaborative laboratories partnering research units of higher education institutions, public research laboratories, intermediate organizations, companies, and business associations. This initiative has mobilized directly around 120 companies, generated 640 new direct jobs of which around 1/3 are for PhDs. This initiative is also benefiting from a complementary policy developed to foster the competitiveness of the Portuguese Innovation Ecosystem, which is now able to attract talent from all over the world. As the world becomes smaller with digitalization, Portugal's talent is making its way across the world once again.

Portugal rhymes with innovation...

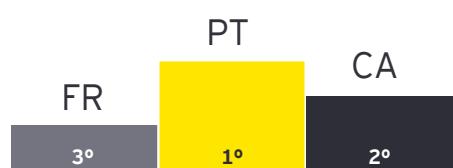
Innovation and Portugal go hand in hand

As demand for innovation increases with the exponential rhythm of change but also with the uncertainty that companies and society face today, Portugal is already competitive to be the place companies invest in innovation.

In fact, Portugal has now already seen 7 startups achieving the unicorn status, a result that goes hand in hand with Portugal being 13% above the European average of number of startups per capita (Dealroom.co). Moreover, Portugal, according the Portuguese National Network of Incubators and Accelerators (RNI), has seen an 85% increase in the total number of startups incubated either physically or virtually from 2016 to 2020.

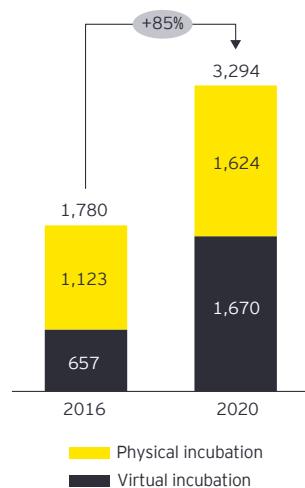
To irrigate this fertile ground, events like the Web Summit, the TES Affiliate Conference, among others play a key role for Portugal to gain, besides international visibility, network connections between startups and potential investors.

Figure 17: Generosity ranking in Global R&D Tax Incentives Benchmark 2022 report



Source: Ayming

Figure 16: Evolution of the distribution of incubated companies, per modality of incubation



Source: RNI

Innovation through R&D is rewarding in Portugal

Portugal reached the first place in terms of generosity¹. It represents the effort that public and private institutions are making to attract R&D investment. One of the most attractive government initiatives is the "Patent Box", a tax benefit that ensures only 50% of the income that originates from contracts of temporary assignment or use of patents, industrial designs or copyrights on computer programs is collected. Moreover, even better news are coming as plans are being made to increase the non-taxation limit from 50% to 85% for industrial property income covered by the patent box regime.

¹ The monetary value of what a company would receive back from a comparable amount of identified qualifying expenditure including the various calculations necessary to make a claim
Notes: FR: France; PT: Portugal; CA: Canada

...but can do better to improve investors' perceptions

Portugal has to be more ambitious and must not stop progressing regarding its innovation ecosystem

To the question on the perception of Portugal as a source of innovation, investors answers are not very conclusive: 49% say Portugal is lagging behind EU and 51% say Portugal is similar or above average as a source of innovation.

This signals that there is still a great potential to improve Portugal's image, even though it improved 2 p.p. in the above EU average answers from last year results.

Moreover, Portugal lost, according to the European Innovation Scoreboard 2021, the status of "Strong innovator". After six consecutive years of score improvement, Portugal saw a decline to the 18th position of the 27 current member states.

However, Portugal was distinguished in three areas in which it is strong compared to the EU average: research systems, digitalization and use of information technologies, having as top indicators the Job-to-job mobility of HRST¹ and the Foreign doctorate students.

Portugal is recommended to continue betting in education and training in new technologies to become leader in innovation

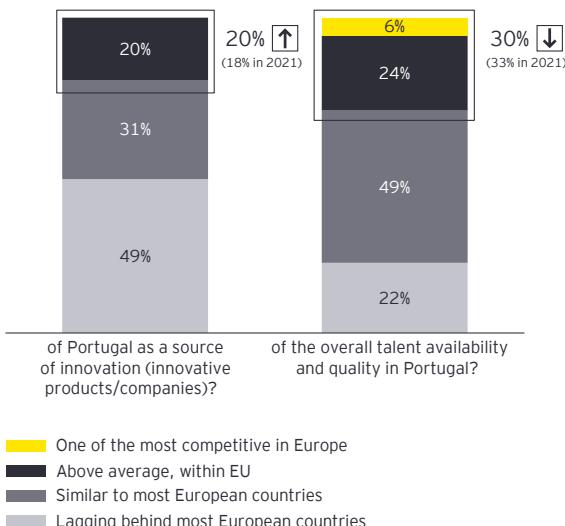
The priority most voted to make Portugal leader in innovation was to improve education and training in new technologies.

The perception of the surveyed investors is the availability and quality of Portuguese Talent is similar or above the EU average. Talent in technology is one of the main criteria that has been attracting major technology players over the past few years.

Following and feeding this demand, for example, is the 42Lisboa who found a home in Lisbon in 2020. The tech school exists in 25 countries and is recognized as one of the best coding schools worldwide. In fact, it ranked 10th in the "World Universities with Real Impact" (WURI) ranking.

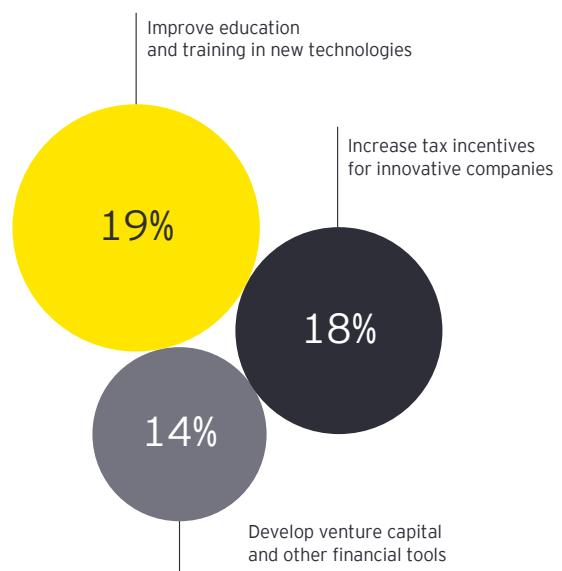
Portugal is, therefore, the place to capitalize on the overall competitive incentives to ensure the only possible strategy for companies to continue to deliver value when looking to the future: innovation.

Figure 18: What is your perception...



Source: EY Attractiveness Survey 2022 (total respondents: 200)

Figure 19: Which one of the following would have the biggest impact on making Portugal a leader in innovation?



Source: EY Attractiveness Survey 2022 (total respondents: 200)

¹ Human resources in science and technology

Viewpoint

Internal viewpoint



Miguel Cardoso Pinto
Partner of EY-Parthenon Portugal

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In order to promote an ecosystem
that is attractive to investment,
Portugal needs to develop
conditions to foster innovation.



Sparking innovation to build attractiveness

Disruption is the norm in today's world. The COVID-19 pandemic was a trigger to provide an acceleration to the digital transformation processes of many companies, fueling the need for innovative practices, ideas and projects that could match the urge of companies.

Promoting innovation requires more than an openness to the topic. It requires the development of business structures that can fully incorporate innovation as a key part of their processes.

Innovation is no longer seen as an isolated department of a company, it is perceived as a driving force of development that echoes throughout the whole organization, developed as a business competency fueled by a culture of cooperation and designed with people at its core.

In order to promote an ecosystem that is attractive to investment, Portugal needs to develop conditions to foster innovation. Knowledge sharing ecosystems that gather universities and businesses play a pivotal role in promoting the development of talent that has the tools to be innovative in a business setting. This allows the talent that comes out of the Portuguese education ecosystem to be ready to match the needs of companies. Developing talent that has the tools and the mindset to be innovative in their everyday tasks can be a difference maker in the mind of investors.

Public policy must also be a driver of innovation. By developing initiatives such as the "Patent Box", Portugal is using its tax ecosystem as a motor of innovation, promoting the country as a place where innovation is not only recommended but effectively rewarded with tax benefits.

The number of R&D projects in the total number of FDI projects in Portugal displays the strong innovation ecosystem the country already has.

The pace of innovation will increase in the next years and decades, placing a bigger pressure on Portugal to walk hand in hand and, even to surpass, the innovation ecosystems of its regional peers.

In sum, an innovation ecosystem that is attractive to investment requires the action of a multiple range of actors, but also needs to have the right conditions for its development. Innovating in times of uncertainty can bring answers to the needs of tomorrow and allow businesses to be steps ahead of the competition.

Case study

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With the offices in Portugal, we are integrating a key location for development of digital services. At the same time, we will benefit from a growing and dynamic environment with young talents who fit our DNA perfectly.

Christoph Grote

Senior Vice President BMW Group Electronics

Critical TechWorks leading the development of autonomous cars

Critical TechWorks is a result of a partnership between BMW Group and Critical Software. Its mission is to support BMW in building software for its future driving machines.

Founded in 2018, this joint venture is an example of the potential gains through synergies between large international groups and innovative Portuguese companies.

Critical TechWorks has grown at an expressive pace in recent years. In 2021, the company intended to hire 500 more workers and increase its revenues by 60%.

The innovative software developed in Portugal by Critical Software is a crucial factor for the new car models produced by BMW group.

The basis of the company's development lies in innovation through highly qualified talent available in Portugal. To this end, Critical Techworks already has talent development programs in areas where it currently scarces.

Source: BMW Group Corporate communications, October 2018; press release, October 2021; AICEP

A policy approach and building awareness regarding sustainability to maintain a competitive position in the global economy

Policies and education: tools for sustainability and competitiveness

Climate emergency and build up action regarding sustainability have shaped public policies across Europe, with Portugal being in pole position. The end of energy production using coal marked a milestone that resulted in the closing of Pego's thermoelectric plant, responsible for 4% of the country's total greenhouse gases emissions. In fact, more than 65% of the investors considered Portugal to be an attractive FDI destination regarding its policy approach to climate change and sustainability.

The role of education as a tool for fighting climate change and building sustainable habits will assure the resilience of Portugal in its commitment with the environment and will help reaching the goals established by COP26. Investors perceive the encouragement of environmental policies and attitudes as a key element for Portugal to maintain its competitive position in the global economy.

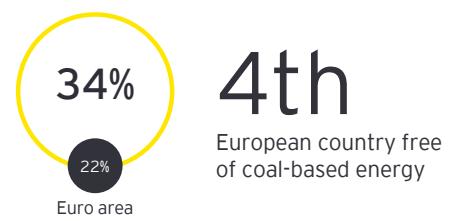
Cleantech and renewables will be one of the main drivers of Portugal's growth

Following on the 2021 results, investors look at cleantech and renewables as a key sector for Portugal's growth, only behind the digital economy sector. The pandemic crisis and the war in Ukraine have renewed the interest in sustainable policies and energy diversification, with renewable energy being at the forefront of this perception. Portugal has excellent conditions regarding the production of renewable energies, particularly solar, wind and hydroelectric energy. In fact, according to Eurostat data from 2020, 34% of its energy consumption comes from renewable energy sources, with the European Union average being only at 22%.

Sustainability ecosystem will guide investment decisions

Investors in Europe look at environmental sustainability as a key factor in their investment decisions. Portugal fares significantly well in all the sustainability-related factors to match investors' needs. These include an existing regulatory framework that enables sustainable business practices, financing for sustainable projects and a pool of highly skilled professionals with competencies to develop this category projects.

Energy consumption from renewable sources (2020)



Source: Eurostat

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Sustainability is increasingly being viewed as extremely important by business leaders. (...) it's not just about decarbonization – businesses are also looking at the impact of issues like biodiversity and nature loss, water shortages, the circular economy, and plastics.

Steve Varley

EY Global Vice Chair Sustainability

Portugal's perception as an example in environmental sustainability can be a strong competitive advantage

Portugal shall capitalize on being an example in environmental sustainability

The overall perception of Portugal being a leader in environmental sustainability has grown from 2021, with more than 65% of investors believing the country is performing similarly or better than the European average. In a world where environmental sustainability represents a growing role in the mind of customers, politicians and business leaders, capitalizing on a good environmental reputation will foster a competitive position for investment attraction.

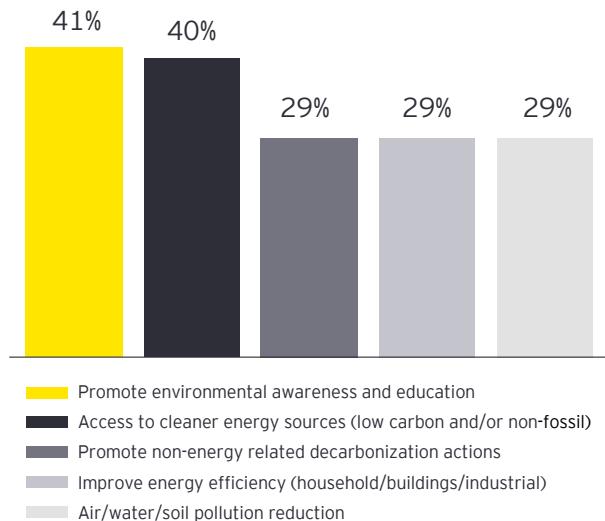
Portugal must maintain its momentum in the development of green initiatives

Portugal has been recognized consistently as being a green country by investors and has also been a pioneer in the development of green initiatives across different industries. The organization Tourism of the Center of Portugal region has required operators and destinations to achieve the sustainability seal by 2023, a landmark operation that will transform the whole tourism ecosystem of the region. Focusing on green initiatives will sustain the country's position as an example in environmental sustainability.

Increasing environmental reforms in Europe demand even more from Portugal to sustain its competitiveness

The support mechanism of the European Union, designed to tackle the economic effects of the COVID-19 crisis, has a strong focus on sustainability and environmental reforms, which will increase Europe's attractiveness in the green economy. Close to 20% of the funding from Portugal's RRP will be focused on the climate transition. In order to sustain its position, Portugal must look at the main reforms that investors point as being the most crucial to build a leadership in the sector and capitalize on the natural conditions of the country to produce renewable energy.

Figure 20: What are the main areas to reform to make Portugal a leader in environmental sustainability?



Sources: Statistics Portugal; Eurostat; Strategy and Studies Bureau (GEE) of the Portuguese Ministry of Economy; OECD; EY European Investment Monitor 2022; EY Attractiveness Survey 2022 (total respondents: 200)

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Sustainable growth is possible if we invest decisively in a cleaner economy.

Ursula Von der Leyen

President, European Commission

(from the speech at the Global Town Hall, November 2021)

Digital economy is the Portuguese safe growing bet

Digital economy market is growing and so is the demand for digital capabilities

With record levels of digital investments on the horizon, driven by a need for speed, CEOs and other C-level executives are under more pressure than ever to select the right mix of investment vehicles and demonstrate measurable returns on digital investment.

Portuguese stakeholders are working to make digital economy very attractive in Portugal

The survey indicated that 95% of investors perceive the support by government bodies and regulatory authorities to drive the digital agenda as performing as well as or better than the average in the EU. Accordingly, the RRP set the Digital Transition as one of the pillars, allocating €2.46 billion.

Another important ingredient for the digital economy to work efficiently is the network of technology start-ups and research institutions. Regarding this dimension, investors also perceive it very positively - 91% say it is performing as well or better than EU average. A concrete signal of this concerns the number of incubators in Portugal. In 2020, according to RNI, the number has grown 40% when compared to 2016.

Furthermore, the regulation dictates ultimately if a company investment will be made or not. Portugal is perceived by 90% and 95% of investors respectively to have both intellectual property rights protection and strict regulatory approach to data protection to be performing as well as or better than the EU average survey results.

Portugal is improving its digital competitiveness

As said before, digital economy is the business sector considered, by investors, to lead Portugal's growth in the short-term. According to the Digital Economy and Society Index (DESI) 2021, published by the European Commission, Portugal is positioned in the 16th place at European level, an improvement of three positions from the 2020 report, converging to the European average.

One criteria that, according to the report, Portugal is excelling at is the adoption of digital practices with impact on environmental sustainability, by companies. On this metric, Portugal is first in the EU, and may be one of the main drivers on the surge of investors' interest in Portugal. Following the sector's attractiveness, there have been significant investments in technological hubs in the main urban areas of Portugal, many of which have accounted for hundreds of jobs created.

Sources: EY Attractiveness Survey 2022 (total respondents: 200); EY-Parthenon 2022 Digital Investment Index; Digital Economy and Society Index 2021

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In a word, Portugal is connected via direct undersea cables to all continents and even to the United Kingdom. This translates into high quality, fast, stable and secure connections, which attract data centers and other digital companies.

António Costa

Prime Minister, Government of Portugal
(from the speech at the opening ceremony of the Hannover Messe, May 2022)

3

Eyes ahead: Evolving and progressing Portugal as an FDI destination



52%

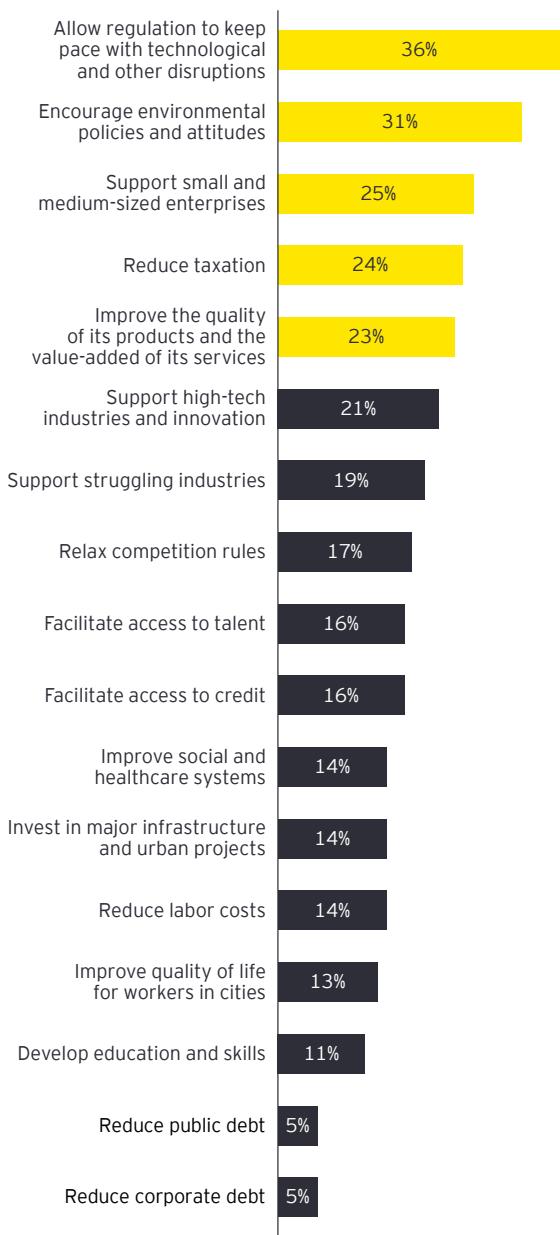
of investors consider Portugal
to be less attractive due to its planned
tax policies

60%

of investors believe Portugal's
attractiveness will improve
in the next 3 years

Where to improve: factors Portugal needs to develop to compete in a global world

Figure 21: In your view, where should Portugal concentrate its efforts in order to maintain its competitive position in the global economy?



Source: EY Attractiveness Survey 2022 (total respondents: 200)

Current legislation must be more suitable for 21st century technologic disruptions

The world is at a rapid pace of transformation, especially in terms of innovation. The emergence of new digital tools and products, such as cryptocurrencies, metaverse and NFT, brings a multitude of business opportunities and productivity gains.

However, its application affects various dimensions of society. For example, in a more digital economy ensuring the privacy of individuals is a challenge that needs to be tackled.

Developing new legislation can limit the negative externalities of these technologies. However, excessive legislation at an embryonic stage of technology development may compromise its future application and, consequently, eliminate the significant gains in quality of life associated with it.

There is no alternative, a green and sustainable world is the only way

As demonstrated earlier, Portugal is committed to the transition to a more environmentally friendly world but, for investors, there is room for more ambition.

The transition to a carbon-neutral economy has high economic and social costs in the short-term. However, the consequences of doing nothing today can be devastating in the future.

It is essential to promote an environmentally sustainable awareness in civil society and in the business context. Both, consumers and businesses, will tend to prefer goods and services with limited impacts on the environment. This behavior facilitates the implementation of environmentally sustainable investment projects.

Portuguese SMEs stand out in innovation, value added and exports when compared to OECD countries

According to the OECD (2022), Portugal stands out for the FDI-SME spillovers. Portuguese SMEs have demonstrated a high capacity for knowledge absorption and technologies of FDI projects. However, the large population of micro-enterprises with low absorption capacity limits the development potential of joint projects with SMEs. Betting on these companies is essential for Portugal to be able to get closer to high-tech manufacturing productivity levels that characterize comparable countries.

Specific challenges to be more agile: reform the tax system and reshape communication

Reform on the Portuguese tax system will boost attractiveness even further

52%

Investors who consider Portugal to be less attractive due to its planned tax policies

According to the EY Europe Attractiveness Survey 2022, Portugal, alongside Luxembourg, Belgium, Estonia and Latvia, is among the countries where more than half of the investors believe the current tax system is not adding value to the FDI attractiveness.

The corporate taxation system is also seen as a factor where Portugal performs underwhelmingly compared with similar criteria, with more than 70% of the investors believing it is little or not at all attractive for FDI. Also, reducing taxation stays as one of the main areas where investors believe Portugal should maintain its focus in order to improve its competitiveness in the global economy, a result that follows the ones obtained in 2020 and 2021.

Overall, the tax burden and regulatory environment seem to be damaging the attractiveness of Portugal to FDI, reinforcing the need to reform and adapt the tax system to ease FDI in the country. The Portuguese tax system is considered complex and bureaucratic, mainly due to the excessive need for fiscal revisions of already delivered tax documents and a significant number of exceptions and exemptions that difficult the adaptation from a foreign country's tax system to the Portuguese one. Furthermore, investors consider that the instability of the tax system affects the assumptions of their business plans.

Ensuring a more stable and accessible tax system for investors and an optimization of processes regarding regulation and bureaucracy are key to maintain and increase the country's attractiveness.

Promote an efficient and innovative communication to get even closer to strategic investors

50%

Investors receive information about Portugal's attractiveness to FDI investment

An efficient communication of Portugal is crucial to ensure Portugal capitalizes on a strong public perception developed in the last few years. The importance of communicating the country's agenda regarding key topics that concern investors is even more significant when speaking to non-established investors, who require more information to make difficult investment decisions.

Investing in regular and tailored information creates a communicating agenda that will keep investors up to speed to make their investment decisions. It will also ensure that Portugal's brand reputation is successfully communicated to the target audience, especially to the strategic investors.

In an increasingly competitive and global world, the need for information and data to make the right assessment can be the changemaker for an investment decision. It can also be a differentiating factor between a pool of countries working to achieve similar goals in terms of attracting FDI.

The COVID-19 pandemic and the crisis in Ukraine represent a challenging situation for European economies. The context will force decision makers to rethink their investment agendas. The reconfiguration of the message and of the communication channels is pivotal to stay competitive amid a period of uncertainty and tool changeover.

The path forward: the risks for Portugal's attractiveness landscape

Emerging markets as an alternative investment destination

When asked about the risks to Portugal's attractiveness, almost one in every five investors pointed the competition from emerging markets as the main risk affecting Portugal's attractiveness. In order to mitigate the competition from emerging players in the world's economy, a focus on innovation and talent development may be crucial to ensure a competitive advantage in the push for FDI.

Aging population: a higher concern than on other European countries

Investors have pointed Portugal's aging population as a major risk of concern for the country's attractiveness. Portugal has a percentage of elderly citizens that totals 22.1% of the total country population, above the average of 20.6% of the European Union in 2021. The growth tendency of the country's aging population is expected to continue and even increase, as it is expected that, by 2050, Portugal will have one in every three citizens in the elderly category, meaning 65 years or older.

This risk could be perceived by two perspectives: the reduction of the working age population and the aggravation of the talent shortage. The challenge of having an aging population increases the pressure to create a business ecosystem focused on the silver economy that will mitigate the risk towards investment and builds interesting investment opportunities.

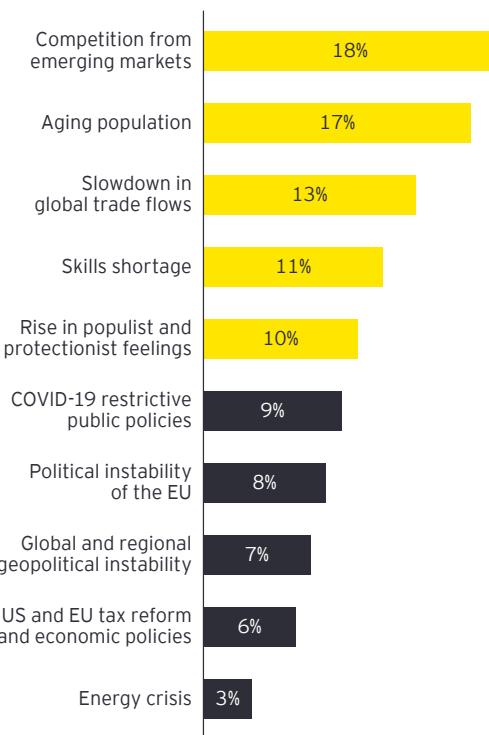
The perception of an aging population as a risk for investment in Portugal doesn't match the perceptions about Europe, as only 10% of the investors perceived it as a key risk for the region's attractiveness.

Geopolitical and economic uncertainty in Europe brings challenges to Portugal's attractiveness

The 5 major risks perceived by investors for European attractiveness are linked to the political and economical uncertainty in the world's economy, while in Portugal only two out of the five top risks identified by investors are linked to that same uncertainty, particularly, the slowdown in global trade flows and the rise in populist and protectionist feelings.

Portugal is a safe hub amidst challenging political situations, as it ranks consistently in the top 10 of the Global Peace Index since 2016, an important competitive advantage as the search for secure locations becomes crucial for investors.

Figure 22: What do you perceive to be the most important risk regarding Portugal's overall attractiveness as an investment destination?



Source: EY Attractiveness Survey 2022 (total respondents: 200)

A tale of two crises: the impact of COVID-19 and the geopolitical context will continue to test Portugal's resilience

Economies are put to the test: high inflation, uncertainty and lower growth

The geopolitical context added another layer of complexity to an economic situation marked by a period of recovery after the impacts of COVID-19. The crisis in Ukraine contributed to a significant rise in the inflation levels. According to Statistics Portugal, in June 2022, inflation reached 8.7%, the highest value since 1992. Other relevant impacts are the effect on the commodities market and on fuel prices, as well as the ricochet effect of economic sanctions on European countries.

Investors remain positive despite the geopolitical situation

The survey conducted showed that investors are optimistic about the European investment landscape in the medium run, with Portugal, alongside France, displaying above average perspectives. To sustain this perception "Global and regional geopolitical instability" and "energy crisis" are in the bottom three of the risks that investors identify for Portugal's attractiveness as an investment destination.

Portugal is displaying strong growth and relatively low direct impacts compared with its European neighbors

According to the Eurostat, the first quarter of 2022 displayed a 2.6% growth in volume of the Portuguese economy, a significant higher growth than the one displayed by the European Union economy, which was only 0.7%. The 2.6% growth also represents an 11.9% growth in relative terms compared with the same quarter of 2021, displaying the strong recovery that the Portuguese economy has showed in the post-pandemic period. Portugal has a low economic dependency from Russia, with the Eastern European nation representing less than 1% of the total exports of the country in 2020. However, the indirect effects must not be forgotten.

The need for energy autonomy in Europe and Portugal's favorable position in the region's geopolitics

The war in Ukraine exposed Europe's fragility regarding energy autonomy, but, despite the overall negative impact, Portugal's low dependency from Russia (the fourth country in the European Union that imports less energy from Russia) allowed the country to withhold that pressure effectively.

Portugal can also play a strong role as an entry platform for energy imports coming from the Atlantic, with the Sines Port being an important platform to ensure that the country's geostrategic position will be used to reduce the European dependency from Russian energy. A major investment was recently made in the infrastructure to produce green hydrogen, led by Madoqua Renewables.

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Sines can be one of the great development poles of the country.

António Costa e Silva

Minister of Economy and Sea,

Government of Portugal

(from the first speech in the Assembly of the Republic, April 2022)



Case study

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Portugal is structurally well positioned to play a leading role in Europe's emerging energy transition space.

Rogaciano Rebelo
CEO of Madoqua Renewables

Powering the energy transition in Portugal with Sines as a building block

An international consortium, led by Madoqua Renewables, is set to invest a billion euros in a hydrogen and green ammonia production project in Sines. The project, named MadoquaPower2X, will be developed in the logistics and industrial area of Sines and will contribute from 10% to 15% of Portugal's hydrogen investment goals. The energy central is expected to start producing energy in 2025, will only use renewable energy and will allow the production of 50 thousand tons of hydrogen and 500 thousand tons of green ammonia yearly.

Sines' industrial hub is expected to attract further investment in green energy, with other companies introducing projects to take advantage of the conditions offered by the city and its key strategic location. To add to the new logistics and industrial area and to its port, the National Energy Network (REN) of Portugal is also building a hydrogen pipeline in the city.

Source: Madoqua Power2X press release, April 2022



Viewpoint

External viewpoint



Bernardo Ivo Cruz

Secretary of State for International Trade
and Foreign Investment

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Recognizing the challenges of globalization,
Portugal is increasingly open to the world and is,
in fact, a country open to investment.

A modern country ready to embrace the future

Portugal has been a pioneer in globalization and innovation presenting itself as a modern country, with the ability to respond to new challenges, such as technological improvements, higher digitalization or a new energy paradigm.

Portugal values investment that promotes economic growth, social development, and environmental sustainability. The competitive advantages of the Portuguese market are well identified and should be reinforced to potential investors: the strategic location; the favorable position in the international rankings of business climate; the security and the framework

of political and social stability; the human capital with a high level of training and the ability to attract talent.

Portugal has a privileged location and is a country open to investment. It is capable of presenting itself as the gateway to a European community market of 450 million consumers, with a privileged relationship with third countries such as the USA, China, Brazil. At the same time, it consolidates its role in the field of Portuguese culture and language as a business language, within the scope of the Community of Portuguese Speaking Countries.

In 2021, 97 investment projects were contracted by AICEP - Portuguese Trade and Investment Agency, with a record amount supported of €2,678 million, doubling the best year ever (2019 with €1,172 million). These projects represent the creation of 7,233 jobs and the maintenance of 38,451, being the highest numbers recorded in the last 10 years.

The projects incorporate a high level of technological innovation and are promoted by companies that create an increasing number of highly qualified jobs, in sectors such as Renewable energy.

It is worth mentioning that the legal framework includes a wide range of cooperation agreements: to avoid double taxation, for the reciprocal promotion and protection of investments, for economic, industrial and tourism cooperation, as well as the facilitation of the movement of people, among others.

It is also important to signal to businessmen the opportunities for investment in Portugal and to effectively communicate the privileged conditions for doing so, particularly in strategic sectors for the Portuguese economy, including the blue economy, green hydrogen, the digital world, the health sector and aeronautics, among others.

This is the path we propose to continue following.

Here I would like to highlight the fundamental role that the private sector plays in the consolidation of the State's foreign policy, with all partners (associations and companies) being called upon to contribute to fostering trade and investment, as well as cultural relations, which have a recognized impact on business. This role of relevance is assumed by the Government with the implementation of the Program Internacionalizar 2030, which aims to support internationalization and foster investment oriented to foreign markets. In this sense, also, one of the Government's strategic bets will be to work to make the Portugal brand stronger.

We believe that the program's objectives will only be achieved with the full collaboration of all relevant actors - State, municipalities, companies and associations, Universities and Research Centers, diaspora structures, among others, that ensure the alignment with other public policies defined by the Government, particularly under programs such as the RRP and Portugal 2030.

Our goals are comprehensive and, rather than focusing on specific sectors, we will work on cross-cutting areas that allow for an integrated and sustained development of all sectors.

Portugal is today a country with the capacity to respond to new challenges in the international context, technological challenges, digitalization, and climate and environmental changes. That is why, in close collaboration with the Minister of the Economy and Maritime Affairs, we will privilege the promotion of economic growth, social development, and environmental sustainability.

These pillars of economic development are based on the promotion of technological innovation, but also on the innovation of products, services, and processes; on the digitalization of economic activity and companies; on the promotion of digital communication and e-commerce.

At the same time, sustainable development goals must be incorporated into the private sector and be part of its digital footprint.

This is our strategic focus.

Companies, whether they are large, medium, small or micro, obviously have to make a profit. This is their purpose and their function, which is central to enable the economic development of our country, but also our social development.

In the same way, the health and economic strength of our companies is the guarantee that our Welfare State model will be maintained. Therefore, these goals are ambitious and will require us to take every opportunity to achieve them. "Business as usual" is not enough, consumers have new demands, and the pandemic and the war in Ukraine have drawn attention to the need for new ways of acting that involve acting fast, simplifying, cutting red tape and, above all, cooperating. Cooperating within existing partnerships, but also and above all with new partners and investors, able to bring value and able to involve universities, research centers and companies even more, is fundamental.

Recognizing the challenges of globalization, Portugal is increasingly open to the world and is, in fact, a country open to investment. According to OECD data, Portugal is in the third position regarding the ratio of graduates in Engineering at a European level and with about 30% of graduates in Science, Technology, Engineering and Mathematics. It should also be noted that four Business Schools are in the Top 50 of the "Financial Times Executive Education Combined Ranking" of 2022.

Thus, investment in knowledge and in the quality of human resources will continue to be at the center of our country's development strategy.



Five priorities to FDI attractiveness: retain and attract talent; promote key sectors; lead in sustainability; reshape communication; simplify tax system

The future is filled with uncertainty, but investors seem to be optimistic towards Portugal and may have found their safe spot. Being in the forefront in terms of technological development, talent attraction and development, and sustainability actions are crucial factors to maintain competitiveness in the world stage, when it comes to FDI attractiveness. In the next page, there are five priorities to promote FDI attractiveness in the long run.

01**Build the right pool of talent, improve the conditions to retain and attract further talent.**

Technology-related factors hold a huge place in the investors' minds when it comes to investment decisions. Building the right talent pool means taking into account the specific needs of investors. In this context, it is crucial to promote policies to retain and attract talent in a world that increasingly disputes professionals.

As investors mentioned, improving the proximity between the business ecosystem and the academia and keeping up with the high level of the education systems in Europe are two relevant steps for Portugal to build upon its existing conditions. Opportunities for reskilling and upskilling can ensure a lifelong learning experience that is attractive to the new generation of talent.

03**Take advantage of Portugal's perception as a sustainability leader.**

Investors perceive Portugal as a leader in environmental sustainability, with more than 65% of investors believing the country is performing similarly or better than the European average in the categories inquired. Major breakthroughs have been able to enhance this perception further but investing in the areas of improvement will allow Portugal to keep the pole position. Promoting environmental awareness and the access to low-carbon energy sources are two of the main paths to ensure Portugal is walking side by side with Europe to achieve the sustainability-related milestones.

05**Develop a tax system that will attract, sustain and promote investment.**

Portugal's fiscal system remains a challenge for the country to address. Simplification is one of the main topics to improve. The efficiency of the tax authorities response time and continuously developing tax frameworks that promote investment, innovation and expansion agendas can place Portugal in an interesting position to get over this long-lasting challenge.

The stability of the tax system is also fundamental to promote investors' confidence in Portugal as an investment destination.

02**Foster growth on key sectors and maintain the recovery trajectory through uncharted waters.**

What investors perceive as being the key sectors of growth are a match with the main areas of the Recovery and Resilience Plan (RRP) of Portugal. Betting on developing sectors, where the external perception of growth is high, will help to build the attractiveness of the FDI landscape, as it will go along with the perceptions of investors.

The digital economy and the cleantech and renewables sectors can be both drivers of economic recovery and FDI attraction and an important factor in ensuring competitive recovery from geopolitical events on the world stage. The reconfiguration of global value chains is an opportunity for Portugal that should continue to be enhanced.

04**Communicate more in an efficient way and with the right message.**

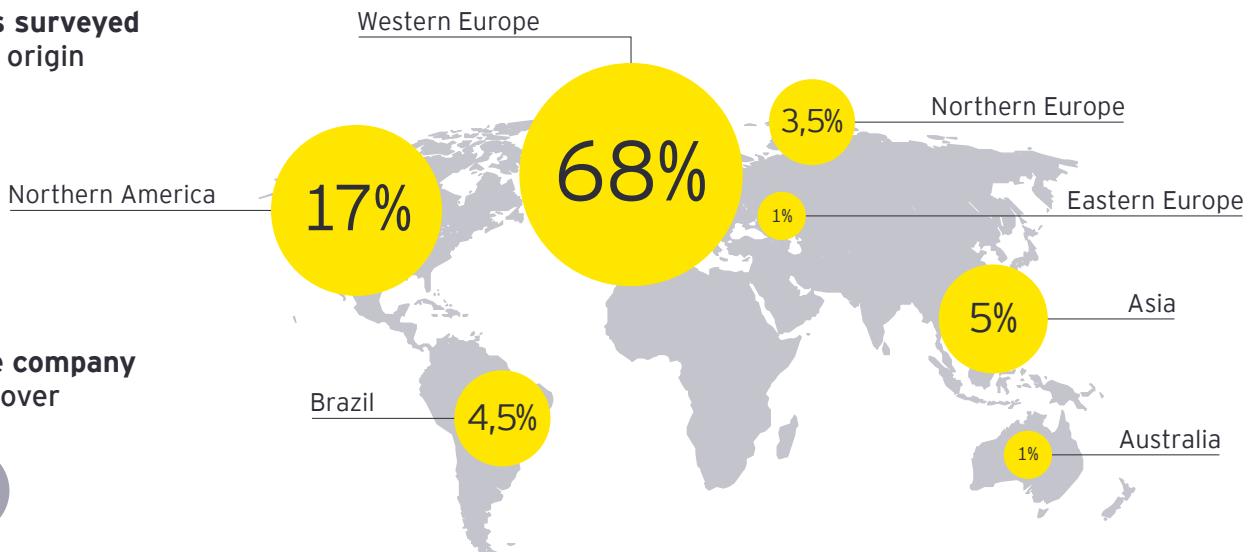
Half of the investors have answered that they receive communication about Portugal's attractive conditions regarding FDI. An efficient, regular and personalized communication should be present in the investment attraction strategy. The right message, at the right time and in the right place, will allow the development of a successful operation abroad and place Portugal on the mind of international investors.

Sources: Eurostat, EY Attractiveness Survey 2022 (total respondents: 200)

Methodology

Companies surveyed

Country of origin



Size of the company

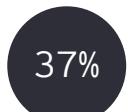
Sales' turnover



... more than
€1.5 billion

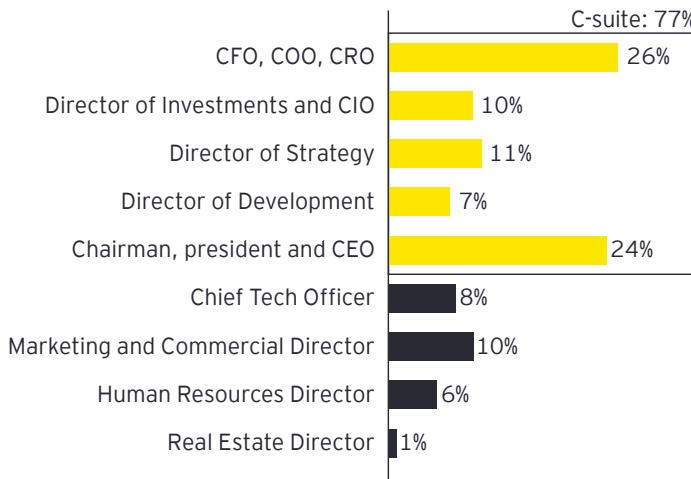


... from €150 million
to €1.5 billion



... less than
€150 billion

Job title of the interviewees



Detailed activity sector



Industrials

Advanced manufacturing and Mobility 27%
Oil and Gas 2%
Power and utilities 6%
Real estate and construction 6%



Consumer

Retail and consumer products 15%
Media and entertainment 10%



Business and financial services

Business services 15%
Financial services 7%



Chemical and pharmaceutical

Health sciences and wellness 10%



High-tech

Technology and telecommunications 4%

The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment, in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in management. FDI includes equity capital, reinvested earnings, and intracompany loans.

However, our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- How FDI projects are undertaken
- What activities are invested in
- Where projects are located
- Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends across Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

The following categories of investment projects are excluded from the EY EIM:

- M&A and joint ventures (unless these result in new facilities or new jobs being created)
- License agreements
- Retail and leisure facilities, hotels and real estate*
- Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- Extraction activities (ores, minerals, and fuels)*
- Portfolio investments (pensions, insurance, and financial funds)
- Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- Nonprofit organizations (charitable foundations, trade associations and government bodies)

The “perceived” attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The case studies presented throughout the report regard investments and/or operations partly or fully realized in the reference year in Portugal or are to be implemented in the medium term, and those are seen for the society as role model examples or strategic on the FDI scope. The field research was conducted by Euromoney in February, March and April 2022 via online surveys, based on a representative panel of 200 international decision-makers. This panel was made up of decision-makers of all origins, with clear views and experience of Europe:

- Western Europe: 68%
- Asia: 5%
- Northern America: 17%
- Northern Europe: 3,5%
- Brazil: 4,5%
- Eastern Europe: 1%
- Australia: 1%

Overall, 15% of the 200 investors surveyed have presence in Portugal.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by EY clients, media, governments and major public stakeholders as key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, removes barriers to growth. A two-step methodology analyses both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 20-year legacy and has produced in-depth studies for Europe, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:
ey.com/attractiveness #EYAttract

* investment projects by companies in these categories are included in certain instances e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

How EY teams can help

Services for investors and multipliers

With offices in Lisbon, Porto, Luanda and Maputo, EY teams offer a broad scope of services across its service lines: Assurance, Tax, Advisory and Transaction Advisory Services.

Our teams work closely with the financial system, private equities, venture capitalists and privately owned businesses. Alongside private and public clients, we provide support to the development of economic and commercial promotional strategies in Portugal and overseas.

An in-depth knowledge of the local market enables us to offer a set of services that covers all stages of the investment process:

Identification of acquisition opportunities

- Support on the decision-making process concerning new investments either related to new geographies, products or markets
- Identification of potential targets, based on the investor's requirements
- Preliminary contact (respecting non-disclosure agreements) leading to in-depth negotiations with selected targets

Acquisition and integration support

- Support in the development of growth and business diversification strategies, through both the identification and negotiation of acquisition opportunities and/or in finding additional funding (assisted funding or new investors) and the analysis of business restructuring strategies
- Assessment of existing compensation packages matching compliance with local regulations and the investor's own policies

Services for the public sector

Building on EY global legacy, we have been developing a significant rapport with governments, investment promotion agencies, regions, municipalities and public companies in the completion of market screening and economic impact assessments. Efforts have also been undertaken to improve attractiveness, reinforce competitiveness, attract, support and accompany FDI leads.

Assessment of attractiveness

- Strategic intelligence - Production and systematization of knowledge that has value for the internationalization process of national companies and potential investors
- National awareness and capacity building to attract investment and promote internationalization
- Identification of existing attractiveness factor and areas of intervention to increase FDI and promote exports
- Creation of investment attractiveness dashboards to measure results

Reinforcement of regions and cities' attractiveness

- Analyzes of regional and local development factors and creation of touristic value
- Assessment of attractiveness, functionalization and impact of equipment and heritage
- Development of local and regional development strategies
- Conceptualization of governance models and partnerships

- ▶ Financial, tax, commercial, operational, IT, environmental and regulatory due diligence
- ▶ Asset valuation and business model validation
- ▶ Assessment of tax implications
- ▶ Technical support to acquisition negotiations
- ▶ Operations assessment and identification of performance improvement opportunities
- ▶ Definition and support on buy and integrate and sell and separate strategies

Assessment of greenfield opportunities

- ▶ Initial business model preparation reflecting investment, financial and operational costs based on local conditions
- ▶ Site selection based on location requirements for investment and business expansion
- ▶ Intermediation with local stakeholders and identification of funding opportunities, including tax and EU-funded financial incentives

- ▶ Preparation and assistance to on-site visits and formal contacts with national and local stakeholders
- ▶ Identification and selection of local suppliers, based on sourcing requirements

Investment promotion

- ▶ Identification and validation of targets for FDI promotion
- ▶ Compilation of the Doing Business report series with regional sector-specific investment brochures
- ▶ Initial setup and definition of procedures for the update of data sets typically required by investors
- ▶ Preparation of regional business model template for specific sectors
- ▶ Setting up and facilitation of roadshows and one-to-one meetings with potential investors, government authorities and business partners

Investment intention's assessment

- ▶ Validation of business models
- ▶ Investor due diligence
- ▶ Assessment of regional impacts
- ▶ Investment economic and commercial viability - investment sustainability

Efficiency of policies and public investments

- ▶ Macroeconomic analyzes
- ▶ Evaluation and impact analysis of programs, public and sectorial policy
- ▶ Strategy plans for public goods and services
- ▶ Technical assistance and support to public management

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EYG no. 005969-22Gbl
ED None



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